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The Secretary  
House Economics Committee  
Parliament House  
CANBERRA 2600

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: 375

Date Received: 28/4/03

Secretary: .....

28th April, 2003

Dear Sir

**Supplementary Submission to the Enquiry into Local Government and Cost Shifting**

This submission is based on the further information provided in the "At the Cross Roads - Discussion Paper", released in February, 2003, by the House of Representatives Standing Committee on Economics, Finance and Public Administration.

From the outset, Council wishes to endorse and support the ALGA Five-Point Plan to address cost shifting, which calls for the Commonwealth to -

1. Acknowledge the fact that cost shifting is a significant and unfair burden on local government and the communities they serve.
2. Engage the Productivity Commission to undertake a detailed assessment of the extent of cost-shifting.
3. Take measures to ensure public sector revenue is fairly shared across all three spheres of government.
4. Develop an intergovernmental agreement (IGA) to address cost-shifting on specific service provision.
5. Enforce the terms of the IGA through appropriate compliance provisions.

Whilst Council does not wish to address all points made in the Discussion Paper, there are a number of issues in the conclusions drawn by the Committee at this point in the Inquiry and the options put forward for comment which warrant further consideration and a comment from Council as follows.

**Changing Role of Local Government**

The conclusions drawn by the Commonwealth Grants Commission and the Committee of Inquiry in respect of the role of Local Government in Clause 3.2 and Clause 3.5 of the Discussion Paper are fully supported and acknowledged by Council.

Local Government being the closest tier of Government to the general public, comes under far greater pressure to meet community expectations. This is why it is more difficult for local Councils to simply say 'No', when initial State or Federal funding for a service or project reduces or is withdrawn, leaving Council to either absorb the expenditure into its normal operating budget or terminate the works or services. Invariably, Councils in the past have continued to fund the service, due to the community's expectations. It will be more difficult in the future for Councils to continue down this path, without adequate funding from the relevant level of Government that devolves such responsibility to Local Government.

### **Nature and Extent of Cost Shifting**

Cost shifting is a growing problem and the Productivity Commission should be engaged to undertake a detailed assessment to quantify the extent of cost shifting.

Therefore, it is critical that in any future circumstances where another sphere of Government devolves responsibility for new functions to Local Government, or through legislation or any other means responsibilities of Local Government are increased, a comprehensive cost impact study is undertaken, in full consultation with Local Government, before implementation. It would then be necessary for an inter-government agreement on the proposed function and/or responsibility and how it is to be funded.

### **Local Government's Revenue Base**

Council fully agrees with the Committee's conclusions at Clause 3.25. At Clause 3.26, Council believes that to simply say "No" in the face of community pressure to continue a service or function is easier said than done in reality. This is why Councils have continued to fund many Community Development Officer positions, working in the areas of aged care, children's services, aboriginal services and the like, after seed grant funding finished. It is also the reason that Councils in some parts of the country continue to have significant expenditures in the areas of medical services, attracting doctors and dentists and providing incentives and infrastructure, simply to provide those health services in smaller communities, when other levels of Government are unwilling or unable to meet community expectations.

Council would have a very cautious approach to the Committee's conclusion that Local Government could meet some of its financial needs through further judicious borrowing. This may be the case in some Councils, but certainly not in all and whilst it sounds reasonable in a low-interest market, there could be very severe consequences if Councils become over-committed to borrowings on a rising interest market in the future.

Council also gives qualified support to reducing State-imposed restrictions on Local Government revenue raising in the form of rating. However, in an environment of major variations in the movement of property valuations, the current rating system in New South Wales does present some inequity issues that need to be addressed.

### **Infrastructure Maintenance and Improvement**

Council fully supports the Committee's findings in Clause 3.53 and the need to continue the Roads to Recovery Programme.

In New South Wales, the State Government could provide increased support to Local Government, through –

- (a) Sharing National Competition payments with Local Government.
- (b) Assessing the full cost implications of any changes in legislation flowing to Local Government and compensate Local Government to the full extent.
- (c) Review legislation in respect to Section 94 developer contributions to provide a more flexible framework to meet changing infrastructure needs, as a result of new developments.

### **Regional Co-operation**

In principle, Council supports an effective system of ROCs and regional programmes/projects could be administered through a sound ROC system. However, ROCs are not a level of Government, nor are they accountable to communities. Instead, they are a regional forum allowing Councils to deal with matters of a regional nature and to foster co-operation and resource sharing amongst neighbouring Councils. Therefore, any proposed expanded role of ROCs needs to be mindful of the context in which they work and are not a forum to usurp individual Council's responsibilities and accountabilities to the local community.

### **Local Government and Cost Shifting Questionnaire**

Council makes the following comments in respect of each of the questions.

#### Option 1A:

This is a non-definitive question and, therefore, answering Yes or No gives no clear indication of what is supported or otherwise.

Council supports an umbrella Inter-Government Agreement on FAGs. It should provide a clear statement of the Commonwealth's policy intent. It must provide for an escalation factor, to match the growth in Commonwealth revenue through GST. Council is cautious of the proposal to change the inter-State distribution of FAGs, as each State/Local Government is structured, based on the existing formula. Therefore, it is suggested that we should use the existing base and build any changes on top of that base. The minimum grant should be retained for the same reason as above. Making grants conditional, as suggested, is not wholly supported by Council and more explanation would be required to comment.

Option 1B:

Council supports this option, if it is tied to GST as a growth tax and New South Wales is not to be disadvantaged from the existing grant base (see previous comments).

Option 1(C):

Council supports the continuation of having untied FAGs. Key national initiatives could be funded on a programme basis, providing it was additional funds over and above the FAGs. If this was to occur, then tied grants for those specific purposes would be acceptable.

Option 1D: Support

Option 1E:

Council does not support this option. The main issue of concern is the quantum of funds, not necessarily the funding formula.

Option 1(f):

Council supports direct Commonwealth to Local Government funding, if this eliminates State Government administration costs and delivers real financial gains to Local Government.

Option 2:

Council supports a genuine three-tiered Inter-Governmental Agreement that specifically considers the on-going financial viability of Local Government in relation to its roles and responsibilities and the need and scope for increased Federal and State support. Such an agreement would need to address Council's revenue raising capacity and the need to reduce/eliminate cost shifting from other levels of Government.

Option 3:

Council supports the proposed investigation, provided Local Government has a key role and equal partnership in developing any proposed changes.

Option 4:

Council supports this option and stresses the importance of seeking out a wide-range of options to resolve these problems.

Option 5:

Council wholeheartedly supports the continuation of the Roads to Recovery Programme. The funding must be provided in addition to FAGs and other road/transport programmes.

Option 6:

Council gives cautious support to the role that ROCs could play in delivering Commonwealth-funded programmes of a regional nature, but not as a mechanism to by-pass local Council's decision-making powers and their responsibilities to the communities they represent.

Option 7:

Council supports Option 7, provided any such agreement includes the mandatory requirement for a cost impact study for any proposal to devolve responsibility or transfer function or financial obligations from either the Commonwealth or State Government to Local Government, and that any such cost shifting is fully compensated and indexed.

Option 8:

Council supports Local Government being a signatory to any SPP agreement.

Option 9:

Council does not support this option. The Commonwealth should provide additional funding for national capacity building and not re-direct part of Local Government's funding through FAGs.

Council looks forward to the further progress of the Inquiry, with the anticipation that positive outcomes to the benefit of Local Government will eventuate.

Yours faithfully



RD Pigg  
General Manager