



LOCAL
GOVERNMENT
MANAGERS
AUSTRALIA

NATIONAL COUNCIL

Wednesday, 30 April 2003

Susan Cardell
Acting Secretary
House of Representatives
Standing Committee on Economics, Finance and Public Administration
Parliament House
CANBERRA, ACT 2600

Dear Ms. Cardell,

Re: Cost Shifting Inquiry

I am pleased to submit, on behalf of the National Council of Local Government Managers Australia (LGMA), a further submission to the Cost Shifting Inquiry for your Committee's consideration.

It is expected that LGMA will have an opportunity to appear before the Committee to speak to the submission and would welcome the opportunity to do so.

Yours sincerely,

Jim Elvey
Chief Executive Officer

House of representatives Standing Committee on Economics, Finance and Public Administration	
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Date Received:	2/5/03
Secretary:	

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LGMA NATIONAL – SUBMISSION TO COST SHIFTING INQUIRY

LGMA National has pursued a detailed process to prepare a submission to the Committee's recently released discussion paper, including the conduct of a specially convened forum of National Councillors representing all states.

In the process, it determined to go beyond a simple response to the Committee's paper which it expects will draw adequate comment from the local government sector. Instead it has pursued a broader view of local government; as it is, where it could be and how it might get there.

It is important to acknowledge that this approach will not produce a submission representative of the views of all members of LGMA. Indeed, a peak body with a national membership of around 2,400 cannot hope to represent their views unless it limits itself to a submission based upon a few broad, uncontroversial statements.

LGMA National believes the Cost Shifting Inquiry presents a rare and important opportunity to explore the options for a better local government sector and demands a submission demonstrating leadership and vision from the professional voice of local government.

Accordingly, some local government practitioners may be opposed to some of the ideas developed in this submission. It does however, draw on the knowledge and experience of LGMA's National Councillors – an experienced group of senior local government managers from of all states of Australia.

AN OBJECTIVE

Of course the Committee's terms of reference represent a set of objectives for the Cost Shifting Inquiry. But in a more visionary sense, the Inquiry has created an opportunity for local government, in concert with state and federal government, to redefine itself and its operating premises for the future. In working toward this objective, this submission is built around three steps.

1. Characteristics of the Current System – it is important to honestly appraise the strengths and weaknesses, both inherent and assumed, in local government as it is today.
2. A Reformed Model – we have sought to define an achievable ideal for an Australian local government system.
3. The Change Process – a broad implementation process that can bring about the necessary changes.

Obviously, these ambitions won't be realised in a single submission. Instead, it offers a framework and a stimulus, which might engage and influence the Committee in the development of its final recommendations.

Indeed, this approach would require a strong commitment on the part of all parties to further research, investigation and consultation.

In return it offers the prospect of a stronger and more accountable tri-government collaborative operating efficiently in the service of the Australia community.

CHARACTERISTICS OF THE CURRENT SYSTEM

By definition, local government will inevitably and always be a fragmented system, comprising autonomous or semi autonomous units exhibiting great variety in scale, circumstances and capability.

As local government currently operates in Australia it does however, exhibit some 'unnecessary' shortcomings.

Structure

Notwithstanding the restructuring that has been undertaken in several states in the past two decades, local government structure still owes more to its beginnings than efficient business practices, the current and future needs of the communities it serves, or the capacities necessary to service those communities.

This system is overlaid with a number of regional decision making processes that are somewhat *ad hoc* and sometimes severed from effective community input.

A further characteristic of local government in Australia (and indeed in many parts of the world) is that the functions of political leaders and bureaucrats are sometimes blurred to the point of conflict. Although not entirely a product of structure, the tension and uncertainty caused by this conflict where it does occur can seriously undermine the performance of the local authority.

It could indeed be said, with due respect, that the limited experience of elected decision makers in our industry can hinder the potential development of individual local governments. These inefficiencies could not be tolerated in public companies where performance is demanded by the investors.

History has shown that, regrettably, local government does not have the capacity to bring about the fundamental and necessary structural change to meet the emerging expectations of its communities. Such a process must therefore rely on external forces. These rarely arise from communities indifferent or ignorant of the local government system; so it is either state or federal governments that must create the environment for change. This does not have to be the 'stand and deliver' approach taken by Victoria, (although this did produce significant and positive change) but neither can it simply rely on political speechmaking and ultimately impotent incentives.

Of course, discussing local government restructure as a starting point is fundamentally erroneous. It should be preceded by a redefinition of local government's role and responsibility. This is picked up below.

Legislation

All Australia local governments operate under powers granted by State legislation. All such legislation can be described as “enabling” or “general competency” legislation as opposed to prescriptive legislation. This allows local government to undertake a range of services and activities appropriate to its circumstances. It is a legal premise that properly recognises the great diversity of needs and circumstances of communities around Australia and the requirements of their local governments to respond to them. It is, however, sometimes undermined by state government controls – in some cases politically derived – which effectively impede the intended flexibility of such legislation.

Infrastructure

Local government is the custodian of a large infrastructure stock throughout Australia, which is simply beyond its capacity to restore and maintain within current self-funding and external funding arrangements. Indeed the political process, not unlike that in the state and federal government, is attuned to short cycles, which doesn't assist in responsible management of infrastructure. There is a consequent reluctance to raise rates to the level necessary to meet replacement or continuing infrastructure needs.

Funding Sources

In simple terms it is reasonable to divide local government services into those that are property oriented (that is, either enhance the amenity of residential, commercial, farm property, etc, or otherwise directly contribute to its commercial value) and ‘people services’, being those that directly enhance the health, safety and enjoyment of life of community residents.

Expenditure on the former should ideally be funded from a property tax, whilst so called people services should be funded from other sources including, where the services relate to other-government responsibilities, intergovernmental transfers.

Although this philosophy is sound, the practice is problematic. Property taxes are, for example, a regressive form of taxation and insensitive to both capacity to pay and service consumption. Furthermore, the high exposure of property taxes and the *face-to-face* political environment of elected representatives in local government, make it difficult to match rating levels with need. Co-funding arrangements with state and federal governments have also evolved into something of a mish-mash with little regard for service and funding responsibility, local capacity or potential overlap and duplication.

A NEW MODEL

As indicated earlier, this does not aim to be a definitive account of a new local government model. Such a model requires further research and consultation beyond the scope of this submission. Nonetheless, it does identify some important principles to be embodied in such a model which will have as their outcome a more open, accountable and performance oriented local government system.

Role and Responsibility

Although the shift to "general competency" legislation has generally been welcomed, for the flexibility it allows in meeting community needs etc, it does not address some fundamental problems, in that some State Government restrictions can still hinder innovative and entrepreneurial planning of services for communities.

For example, although a return to prescriptive legislation is neither desirable nor necessary, it may be preferable to mandate local government to carry out defined core activities. Furthermore, the current forms of legislation and their precedents do not address the varying capacity of local government. The objective should be to identify minimum services and standards within general competency legislation.

A way forward, would be to redefine the role and responsibility of local governments appropriate to their scale, capacity and circumstances. Thus the outcome would be flexible legislation which still reinforces accountability. This approach needs to be complemented with local government restructuring to improve capacity where appropriate.

Structure

Local government role and structure should reflect the differing capacities needed to serve diversity of high and low socio-economic areas, densely and sparsely populated areas, etc. It should be possible, for example, to devise a system which defines local government's role and responsibility according to its circumstances rather than to the one-size-fits-all system, which currently applies.

There are alternative pathways toward restructure although, as intimated earlier, they must be premised on strong incentives and/or directives. For example, the distribution of Commonwealth funds could be used to encourage appropriate restructure or grouping of Councils for delivery of some services on a broader or regional basis.

Indeed funds should, in some cases, be distributed through regional structures where existing local governments do not have the capacity to provide and maintain necessary infrastructure and services.

Issues of structural reform expose the need for development of a set of broad objectives and strategic directions for Australia local government. This needs to be done in conjunction with an examination of the benefits of regional local government, designed to complement local structures and offer a higher level of scale to ensure viability of specific service delivery. The Federal government should be more active in regional policy development. LGMA would therefore support the conduct of research into the optimal size of Local Governments and grounds for alternative use of Regional Government structures.

Performance

There can be no doubting the value and importance of applying performance objectives and measuring the achievement of those objectives. As well as promoting accountability, performance measures can be designed to support the policy objectives of funding agents and thereby overcome inappropriate influences in funding decisions, etc.

Many local authorities around Australia have developed relatively sophisticated models which have laid the foundations for highly accountable, directed and effective organisations. Most state governments have also intervened with varying degrees of success with some form of broad-based performance measurement.

In the wider perspective however, there is an absence of performance measurement in the local government sector. A great deal of research has already been undertaken in this sphere and there are many Australian and international examples to draw from. Nonetheless, further work needs to be undertaken to refine performance measures consistent with the broader themes of an improved local government sector as envisaged by this submission.

In addressing issues of role and responsibility, it is important that any action taken is accompanied by appropriate capacity building measures. There will be capacity deficiencies related to scale and other factors not easy to remedy, but significant advances can be made towards optimising existing capacities.

Inter-Government Relations

There is a clear need to rationalise and reform current inter-government service delivery arrangements to remove overlaps and duplications and to clarify responsibilities, long term plans and funding sources.

State and federal government laws and initiatives should be subject to a local government (or inter-government) impact statement. Co-funding agreements should clarify short and long term commitments, including review/evaluation process.

Much could be gained from studying parallel models implemented by state and local government in Tasmania. As well as a partnership program which is producing service agreements between state government instrumentalities and individual councils around specific service programs, Tasmania also operates a collaborative performance review system board of review conducts an in-depth performance and systems assessment of every council over an eight-year cycle. This process, which is supported by the Tasmanian Division of LGMA, the Local Government Association of Tasmania and the state government, is already exposing low-performing councils and generally improving standards of operation.

Co-funding arrangements certainly need to be formalised to clarify both outcomes and commitments.

Resourcing the New Model

Comment has already been made on the limited and inappropriate nature of the present array of funding resources. This is compounded by state government intervention (such as rate capping measures) and made more difficult in areas of relative economic

stagnation or decline. Clearly there is a need to seriously examine alternative funding sources. These may include tourism related activities which often bring substantial costs to local authorities without commensurate access to revenue sources and the mining sector where provision of infrastructure is often a local obligation required with no share in royalty income.

Other suggestions include predefined proportions of PAYG (or other broad income/wealth tax) GST or mining levies. There is also a strong case for state governments refraining from property taxation if local government is to continue to rely heavily on this as its principal source of revenue. Preferably however, property tax should be diminished as a revenue source for local government and replaced by a simplified, transparent, three party co-funding system. For example, FAGS and other Commonwealth funding could form part of state/local government GST distribution that could respond to known cost shifting.

Federal assistance grants which vary from marginally significant to critical in terms of their importance to local government should also be distributed in a manner appropriate to a reformed model. The work already carried out by the Grants Commission and this Inquiry should be further developed with due reference to a socio-economic measure for fund distribution, but subject to performance objectives and measures. Such an approach needs to be accompanied by performance objectives and measures which encourage best practices and service viability.

Other Issues

A number of other suggestions have emerged from the work undertaken by LGMA National to date. Some may fit under the preceding headings, but are perhaps best collected as a series of minor points and suggestions.

- Federal constitutional recognition is often discussed as an important but otherwise token positioning of local government as a partner in the Australian government system. In the broader context of this submission, LGMA proposes that constitutional recognition is logical and essential in a meaningful, three way relationship aimed at an agreed division of service, funding and delivery. (LGMA notes that the Victorian government has announced an intention to provide "constitutional recognition" of local government in that state albeit within state legislation.)
- Regular meetings should be undertaken between federal and state governments and local government peak bodies. LGMA National is aware that to some extent this already undertaken on a 'political' level involving federal agencies and the Australian Local Government Association. There are a number of examples of LGMA and state local government associations conferring with state government agencies on a regular and strategic basis also. These models need to be further developed to provide consistent and effective forums in every state and at a national level which takes account of the views of both manager and elected representative peak bodies.

Such meetings could also take into account Local Area Planning issues, pre-event/project co-ordination, etc.

- FAGS should be aligned with performance outcomes. This does not mean that it needs to become 'specific purpose funding' in the traditional sense but it should be directed toward high performance councils (measured with regard for their operating circumstances) and broad target achievements. There appears to be no benefits derived

from filtering Federal Grants through state agencies which add unnecessary costs, delays and potentially distort outcomes.

THE CHANGE PROCESS

Australia's government systems and public service processes are complex and comprehensive. Any major shift in strategy, structure or process must overcome a great deal of inertia. This problem is exacerbated in a political environment that doesn't draw uniform strong commitment from all stakeholders. Ultimately however, these factors should not become reasons for inaction or token change. Instead, a means is to be found to develop a vision that is attractive to all stakeholders and will draw them into the change process as willing participants.

(The recent "ROADS TO RECOVERY" program provides a model worthy of further investigation. In this case, local governments were compelled to demonstrate regional co-operation in the development of road construction programs.)

One way forward is to establish a reform review working party that is both adequately resourced and credible in its composition. Its terms of reference should be guided by a realistic vision and anchored by a commitment to devising both a process and an implementation strategy appropriate to that vision. LGMA National is willing and anxious to play its part in this process.

This includes a preparedness to work with the Committee to further develop the ideas contained within this submission and, if appropriate, to host resources for this purpose.



**Trevor Starr, FLGMA
National President**