

30 July 2002

The Secretary
House of Representatives
Standing Committee on Economics, Finance and Public Administration
Parliament House
Canberra ACT 2600

Dear Sir

Inquiry into Local Government and Cost Shifting

The South East Queensland Regional Organisation of Councils (SEQROC) has prepared a submission for the inquiry into cost shifting on local government and the financial position of local government in Australia. Given the wide-ranging nature of the terms of reference and the short time for submissions, our attached submission is only a preliminary one.

SEQROC would also like to reserve the right to address the Standing Committee at a public hearing later in the year, to expand on this submission.

SEQROC also appreciates the fact that you were able to provide the organisation with an extension of time to finalise its submission.

Yours sincerely

Cr Jim Soorley
Chairman

**SEQROC SUBMISSION TO THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION IN RELATION TO THE INQUIRY
INTO LOCAL GOVERNMENT AND COST SHIFTING**

A. BACKGROUND

SEQROC is the South East Queensland Regional Organisation of Councils, comprising the 18 Local Governments in South East Queensland, centred on Brisbane. The members are responsible for local government services in an area that comprises 66 per cent of the State population (12 percent of the national population), generating 62 percent of the Gross State Product and 10 percent of the national Gross Domestic Product. It already has a greater population than the three smaller States.

On current projections, South East Queensland will absorb 32 percent of Australia's population growth over the next 35 years. This is the same level of growth as anticipated for New South Wales, and greater than the anticipated combined growth of Victoria, South Australia, Western Australia, Tasmania and the Australian Capital Territory. Consequently, cost sharing across spheres of government has great importance to the operations of the eighteen Councils.

The population of member Councils of the Organisation varies from 3,300 to over 880,000 residents, and include a diverse mixture of metropolitan areas, tourism districts, and rural environments. It includes Brisbane and Gold Coast City Councils, the two largest Local Governments in Australia, which are comparable in budget and population to small States and larger than the Territories. While predominantly major urban in terms of population, 12 of the 18 have significant rural areas, and consequently experience a wide range of expectations for services and capacities for their delivery.

In common with Local Government throughout Australia, SEQROC members have been subject to changes through cost shifting over recent decades, and all indications are that this will continue in the future.

This submission is intended to supplement submissions from individual members and a comprehensive quantitative submission by the Local Government Association of Queensland.

B. FOCUS OF THE SUBMISSION

In examining the nature of changes from cost shifting that have occurred, are occurring and are anticipated to occur in the future, several perspectives should be addressed. There are six situations of significance to this Inquiry. These are as follows:

- (a) where a State or Commonwealth agency increases costs for Local Government by transferring some facet of a functional responsibility to Local Government;
- (b) allied to this is the situation where a State or Commonwealth agency transfers only part of a potential package of responsibilities, despite Local Government willingness and capacity to handle more components;
- (c) where a State or Commonwealth agency retains its control over a function, but does so by changing the operational requirements of a function and as a result Local Governments incur increased cost;

- (d) where a State or Commonwealth agency changes its operating arrangements with Local Governments to address narrow functional (usually economic) objectives, without considering the social impact of the changes;
- (e) where a State or Commonwealth Government reduces funding for general activities, resulting in cost shifting; and
- (f) the lack of long term planning and commitment by State and Commonwealth Governments, causing de facto transfer of responsibility and increased cost for Local Governments.

This submission will address each of these aspects in turn. It will then suggest ways of addressing the imbalances.

C. NATURE OF CHANGES

C1. TRANSFER OF RESPONSIBILITY

A basic issue for Queensland Local Governments is the extent to which the State of Queensland has shifted significant costs to Local Government that are State responsibilities elsewhere in Australia. This includes the major infrastructure items of water supply and waste water provision, where Councils are required to raise funds and incur significant local debt, impacting on their capacity to carry out other potential activities. In South East Queensland, these undertakings are of major size, including the operation of water storages of national, regional and local significance.

In addition, in part because of the rate base of the region, the State takes responsibility for a low proportion of the regional road network, placing the cost of development and maintenance disproportionately on Local Government. Brisbane City Council is currently constructing and managing major metropolitan motorways, unique in Australia.

Brisbane City Council also has responsibility for metropolitan bus services, with State subsidy inadequate to meet the deficit in operating costs. This is a responsibility in other States met by State Governments.

A second form of change has been the removal of local services previously operated by the State, with similar impact to the removal of banking services. Increased costs for Local Governments result from introducing compensatory arrangements such as the Queensland Government Agent program (QGAP) service, negotiated by Councils to provide local State Government services in Local Government offices. More indirectly, the closure of local facilities such as schools has placed greater pressure on Local Governments to provide community service facilities, such as sporting facilities and halls.

A different form of transfer - the transfer to limbo - is exemplified by water supply planning in the region. The State has statutory authority in the sector, and owns sites held for future use as water storages. It has set up arrangements under which management of bulk water and water storages is commercialized, while Local Governments are responsible for reticulation to urban users. There is no mechanism for planning for future requirements or for assessing proposals for changes in water infrastructure provision, especially to meet rural needs. Local Governments in the region have had to take the lead through SEQROC in negotiating ad hoc arrangements with the State Government to carry out such planning in a one off manner.

C2. PARTIAL TRANSFER OF RESPONSIBILITY

Commonly, the transfer of responsibility is based on agency decision, and does not reflect a whole of government approach or an attempt to meet expressed needs of specific communities. A simple example is the previously mentioned QGAP system, which does not include many of the common State Government services, as individual agencies will not participate or only participate for some activities.

At a less public interface level, there are legislative compromises such as the capacity under planning schemes to charge for only some development costs, leaving Local Governments subject to future costs which could have been met more equitably in the development phase. There are wide imbalances between the degree of transfer in regard to, for instance, environmental protection compared with justice or transport management. This imbalance results in inefficiencies and distortions in Council resource allocation.

C3. DELEGATION WITHOUT TRANSFER OF CONTROL

This form of cost shifting is the most contentious. State and Commonwealth Governments react to public demand for expansion or increase in quality of services (either regulatory or delivery). However, the desire to maintain low levels of taxation leads to an inability or unwillingness to physically provide such services through their existing structures, which are commonly downsizing. The consequence is an unwillingness to abandon control over a function, leading to the search for alternative mechanisms.

One such mechanism is legislative and regulatory powers which State Governments can exercise over Local Governments; another is the financial incentives available to the Commonwealth Government that it can exercise through both budgetary and increasingly non-budgetary means using contractual processes.

The result is most evident in the growth sector of environmental protection and natural resource management during the past decade. By 1999-2000, the ABS indicates that, in Queensland, Local Governments spent \$1.64 billion on this sector, while the State Budget for 2002-2003 only provided its two primary agencies in this sector - the Environmental Protection Agency and the aspects of the Department of Natural Resources and Mines addressing the "Valuing the Environment" policy priority - with \$661 million.

This disparity reflects cost shifting forced on Local Governments in earlier periods, and has been built on in recent times. Only six percent of revenue to provide Local Government environmental protection and natural resource management services came from State or Commonwealth Government sources, with the remainder raised from local sources. Despite this, close control is exercised by the State Government, using legislated power.

This is clearest in the regulation of open-ended commitments relating to standards of waste treatment and rehabilitation put in place. Councils have been required to carry out the services and now have to implement these changes without any assurance of State acceptance of partial liability.

There is a lack of State expenditure on acquisition of land for conservation purposes. While the region has only 16 percent of its terrain in State controlled protected areas (compared with 45 percent in the Sydney region), virtually all acquisition is by Local Governments, who are then taxed on such purchases by the State for helping meet its objectives and targets contracted with the Commonwealth Government.

The implementation of the National Action Plan for Salinity and Water Quality reflects this at a larger scale. Despite announcement of the scheme in October 2000, no funds have flowed to regional bodies from the Commonwealth and State Governments as at the end of July 2002. Local Governments will be required to implement the Plan in part through their statutory instruments and on the ground through project activities, but will be waiting at least another year before guidance on the scope, nature and cost commitment of such local action is clarified.

Clearly, there is potential for rationalization in this situation. The State (and Commonwealth) desire to keep control leads to overhead costs in the provision of services to the community that require justification, especially in circumstances where Local Governments have shown that they can carry out a wide range of services more efficiently, usually more effectively and almost always in ways more appropriate to the receiving community than standardized provision by State bureaucracies.

C4. INAPPROPRIATE RATIONALISATION OF SERVICES

In the current environment, agencies are increasingly looking at ways of increasing the efficiency of their operations, measured in terms of financial cost. The Queensland State Government imposes an "equity return" on its Departments to force them to look for such savings.

Consequently, there have been moves to reduce regional and local services, with increased use of call centres and telecommunications instead of local staff. This is not a recent change in some areas of government service, with patterns of supply developed which have been subject to further change in recent years.

A clear example of this is the provision of road works for State controlled roads. This evolved from a State Department directly employing all staff to a situation where Local Governments contracted for much of the construction and especially maintenance work. This has played a significant role in sustaining local employment in many rural areas. During the 1990s, the Main Roads Department changed its contracting basis with the result that much of this socially-important work was let to commercial providers, usually based in major urban areas, with consequent loss of local employment. This has had an important impact in rural areas such as in South East Queensland near major centres which can provide such services.

A side effect for many Councils was that their road works equipment provision required the State supplement to be sustainable, and there have been consequent losses of capacity in local areas, leading to further out-contracting of local work, and even less local employment.

Alternatively, Councils have had to engage in contracting of their work gangs and equipment to other users and locations, to the social detriment of the local areas, or in skill and equipment sharing, to keep some service locally. The narrow implementation of the National Competition Policy has aggravated this situation.

At a general level, changes in administrative practices have also meant that access to existing local facilities of State agencies (such as schools especially) is often restricted in scope or level with the result that previous degrees of availability of facilities (often paid for or heavily subsidized by local communities) can only be met through Councils supplementing or duplicating provision.

These practices mean that, for a local community, access to services can be variable across and even within State agencies, while Council resources are having to be provided to duplicate or replace facilities and services that no longer meet local needs, especially of a multi-purpose nature. The narrow functional specialization with restricted funding is especially driving out this multifunctionalism, despite the rhetoric. The State agencies acknowledge this problem, with efforts towards "place management", whereby services are coordinated for a specific locality, but this is restricted to a single agency focus rather than a whole of government one, and in any particular case can be over-ridden by what are believed to be economic and centralist imperatives.

The Commonwealth Government aggravates this situation, by its practice of dealing as far as possible directly with regional areas. Rather than utilizing existing structures, the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust, for example, will result in two new peak bodies being formed in South East Queensland for natural resource management, in order to administer separate funds which in fact are only different programs of the same Commonwealth Departments. There is no relationship with regional bodies being set up to coordinate funding from other Commonwealth agencies in the region.

As Local Governments are treated differently by different programs - either as government agencies or as community organisations - this affects Councils in their relationship to Commonwealth initiatives, as does the propensity for funding to be for limited time periods and the pressure consequently exerted on Local Governments to sustain activities through cost shifting.

C5. REDUCTION IN FUNDING

Details of the changes over time can be obtained from the submission by the Local Government Association of Queensland, while illustrative impacts on the largest South East Queensland Council are available in the submission by Brisbane City Council. Rather than reiterate these, a few points need to be made.

At its most basic, the cost shifting is reflected in the operations of the Financial Assistance Grants to Local Governments. South East Queensland Councils have been affected by two elements. The first is the quantum changes in these in toto through the past decade, but more directly a refocusing of the Grants to provide a greater proportion of the funds to remote Councils affects South East Queensland Councils.

The result has been steady decline in the real level of financial assistance to the area of the State (and nation) under the greatest growth pressure. It has meant that services that were previously funded in a significant way through the redistribution of tax revenue have increasingly to be funded from local taxes and charges. This cost shifting is a fundamental problem in South East Queensland.

C6. SHORT TERM FOCUS

This has two primary components.

The first is the introduction of programs by the Commonwealth and State Governments, often with special funding, to be managed through Local Governments, which have funding discontinued after the services have been established and integrated into the activities of a local community. The result is an invidious form of cost shifting.

The second is the more general case of the lack of long term planning, especially for infrastructure needs. Much planning is attempting to address the consequences of past failures and to arrive at a situation which State or Commonwealth agencies consider to be a better current solution. Priority is given to meeting or reducing current pressure points. There is little attempt to plan for future situations.

This is a major problem in South East Queensland, faced as it is with 50 percent growth in population demands over the next twenty years. The region doubled in population between the 1970s and 1990s, and major infrastructure provision has not caught up with this level of demand. Queensland Governments have traditionally focused on the development regions of rural Queensland and currently face disparate demands from different types of development in different areas of the State, while the Commonwealth Government is unwilling to invest in requisite quantity in major urban areas.

Consequently, Local Governments in South East Queensland have had to work together and with the State Government to attempt to address this lack of long term planning and to shoulder an increasing share of the cost burden. Currently, SEQROC is meeting half the cost of the regional planning program SEQ2021, with the financial commitment from the State Government no more in absolute terms than it was in 1991, and no direct funding from the Commonwealth Government at all. This reflects a degree of cost shifting, as SEQROC contributed 25% of funding to the SEQ 2001 project while the State contributed 75%.

D. THE WAY FORWARD

Local Governments are being forced through cost shifting to meet an increasing share of combined government expenditure from their rate base, which in growth areas results in extreme pressure on current resources and through borrowing capacity on those of future generations to meet demand that traditionally was a responsibility of other spheres of government.

The State Government has ultimate responsibility for provision of most services to the community, and has over time developed a distribution of executive authority shared with Local Governments. The main problem in recent times has been that State financial resources are limited, both by the economic situation and policy, while its aspirations and the demands on it for services continue to grow.

Further, in its drive to make its agencies more cost effective, it has encouraged them to engage in cost-shedding, cost reduction and streamlining of service delivery. However, this has been from an agency perspective, and not a community one. Increasingly, the State has lost the plot on meeting multi-faceted and integrated community needs.

The basis for part of the solution is recognised by the State Government, but inadequately implemented, coming a poor second to the call for Departmental efficiency.

One component is the greater use of place management in identification and delivery of community requirements. Several agencies incorporate this approach to integration of local service delivery as a component of their operations, but it remains minor.

A second is cross-agency (and cross Government) integration of service provision on a place basis. In South East Queensland, this has been piloted in the Goodna Service Integration Project, but this remains a pilot. Regional Forums of Government Managers operate with Local Governments across the region, but have no effective role at present. At a regional level, integrated regional planning, in South East Queensland through the SEQ2021: A Sustainable Future program and its predecessor, the SEQ2001 program, provide a vehicle for such an approach, but this has little strength and can only guide actions.

These structures and approaches can facilitate better operations, but do not strike at the heart of the problem. This is that Commonwealth, State and Local Governments need to be recognised as equal partners in addressing the needs of local communities. This could be helped by formal recognition of Local Government's status constitutionally. As partners, the spheres of government could then assess the relative roles of the spheres of government in policy development, service delivery and monitoring and evaluation across a range of functions as they apply in a range of geographic situations.

Efficiency, effectiveness and appropriateness should be the criteria used for services to communities across spheres of government. The mix of management autonomy that results will vary across the State, as circumstances vary. The legislative, regulatory and standards driven approach characteristic of much State Government activity, resulting in attempts to proceed as far as possible in step across the State, is detrimental to meeting local needs.

Clearly, approaches to policy development and service delivery in the Gulf province or western Queensland, industrial centres like Gladstone, a tourism growth area like the Cairns district and a national focus of growth such as South East Queensland have to vary. Not to do so is to impede their development and impact on their potential standard of living and quality of life.

Traditionally, the State Government has been a front line provider of services in a State with a scattered low density population with limited financial and human resources. This circumstance no longer applies across much of Queensland, and certainly not in South East Queensland. The State has pulled back in some sectors from this role, but there has not been any integrated approach to the issue. In general, such restructuring has often led to increased imposts on Local Government without commensurate transfer of revenue or policy responsibility.

The vehicles for planning appropriate transfers of responsibility, control and resources have been established. The Local Government Association of Queensland provides an effective peak body service that can be utilised to renegotiate transfers at a macro level. The experience in the main development areas of the State with a cooperative partnership approach to planning at regional level through the Regional Planning Advisory Committees provides a basis for expanding such activity to address varied local situations. The State and Local Governments have extensive experience of developing and operating Memoranda of Understanding, and there is lengthy experience in consultation on agreed outcomes.

Local Governments in South East Queensland have a structure of regional and subregional organisations of councils which can represent their views and the State has an articulated if underdeveloped system of regional managers forums that in South East Queensland operate at a subregional level.

These provide a basis for cooperative coordination of services using procedures which directly involve the local communities that have been developed in the region.

In the interim, basic changes in approach that can be implemented would involve the conduct of independent social, economic and environmental impact assessments whenever a change in policy or service delivery is proposed by the State Government that has implications for Local Governments.

The Commonwealth Government similarly needs to assess the appropriate mix of implementation mechanisms for achieving its goals in local communities. This may involve dealing directly with Local Governments or groups of Local Governments, or through regional bodies accredited with the Commonwealth Government (not just by individual agencies or programs as at present). However, the same arguments apply to the dealings of this sphere of government, which is even further removed from local circumstances.

Where a Commonwealth program for local services has no policy input or service delivery component being made by the State Government, funding should be direct to Local Governments or groups of Local Governments, unless there is perceived benefit in support services that the State Government can provide, based on local circumstances which will vary across the State.

What it needs is a primary commitment to meeting the needs of local communities, rather than on shifting the cost of initiatives and activities to another sphere of government. Application of these proposals would greatly facilitate efficient, effective and appropriate delivery of government services in this region.