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Your Ref:

29 July 2002

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

Dear Sir/Madam

Initial Submission to Inquiry into Cost Shifting onto Local Government

I am pleased to provide the attached preliminary submission to this inquiry and will forward further specific data to support the comments made in this submission.

Yours faithfully

**Andrew W O'Brien
Chief Executive Officer**

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INITIAL SUBMISSION

TO

INQUIRY INTO COST SHIFTING

ONTO LOCAL GOVERNMENT

Initial Submission to Inquiry into Cost Shifting onto Local Government

This submission addresses each of the six Terms of Reference (TOR) outlined by the inquiry as well as general comments.

TOR 1 – LOCAL GOVERNMENT’S ROLES AND RESPONSIBILITIES

The Local Government Association of Queensland Inc submission details the current status fairly comprehensively, however by far the greatest change in role for my Council in the last decade has been the requirement to pursue Economic Development on behalf of the community. This activity consumes approximately 20% of Council’s General Rate revenue.

TOR 2 – CURRENT FUNDING ARRANGEMENTS

Government policy particularly at the Federal level has provided a clear disincentive to businesses establishing their management operations in Inland Queensland and has provided incentives for individuals who reside in major urban centres while working in Inland Queensland.

Funding arrangements specifically to Local Government take no account of the practicality of existing Local Government boundaries nor do they adequately address the cost of distance. There is evidence that distance is the major factor in determining the cost of access to services.

Alternative funding sources provide limited opportunities to address the need for maintaining or improving services. The Mount Isa community provides enormous taxation, royalty and other funding sources to the State and Federal Government and it is impractical for this Council to further impose on the major employers of the region.

Mount Isa City Council has suffered from a reduction in recurrent grants and subsidies in absolute terms which has required increasing contributions by the ratepayer. Further comment is made under TOR 6.

TOR 3 – REGIONALISATION

The opportunities provided by regionalisation have been tried in North West Queensland with limited success. Given the geographical size of the region (Mount Isa alone has over 40,000km²), the history of the region’s development and the relatively small Local Government outlays, there are limited economic benefits to be gained. These benefits would come at the cost of representation across two clearly different communities of interest ie; the mining and pastoral industries.

TOR 4 – CHANGES TO POWERS, FUNCTIONS AND RESPONSIBILITIES BETWEEN STATE AND LOCAL GOVERNMENT

No additional comment than provided in the Local Government Association of Queensland Inc’s submission except to highlight that the major impact has resulted from compliance costs (eg; Workplace Health & Safety).

TOR 5 – RATIONALISATION OF ROLES AND BETTER USE OF RESOURCES

No additional comment to the Local Government Association of Queensland Inc’s submission.

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TOR 6 – REVIEW OF LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

I attach my Council's submission to the Queensland Local Government Grants Commission review which supports the Commonwealth Grants Commission finding that the principal of horizontal fiscal equalisation is impossible to apply in practice.

I wish to reiterate that distance is the main factor of access disadvantage and should be used as the principal variable in any funding formula.

GENERAL COMMENTS

The fundamental policy shift required to address Local Government financing is to recognise the revenue constraints of Councils with static revenue bases which are generally compounded by loss of "Head Office" business operations.

At an operational level the major cost shifts have been towards increasing compliance costs and the need for smaller regional Local Governments to fund Economic Development activities.

2 April 2002

**QUEENSLAND LOCAL GOVERNMENT
GRANTS COMMISSION
SUBMISSION TO REVIEW OF THE METHODOLOGY**

Please accept the following comments/recommendations as my Council's submission to the review and on its behalf I thank you for the opportunity to do so.

Relative Need Pool

The principle of Horizontal Fiscal Equalisation (HFE) is a worthy one however the application of this principle is unattainable for the following reasons:

1. Assumes Queensland and Australia have been settled in a logical pattern which can be statistically modelled.
2. Even if the first assumption were true it then assumes LG boundaries reflect a logical distribution.
3. The delivery of local government services cannot be assessed in isolation from other government and non-government services and while the methodology takes some account of this it is impossible to make any realistic assessment.
4. The nature of local government has changed dramatically in the last decade with local governments in regions of population decline playing a significant role in simply trying to hold their communities together.

Be that as it may, and knowing the principle of HFE is prescribed by the Federal Commission, in 21st Century Australia what are the constant factors responsible for disadvantage in service delivery.

My Council argues that the two critical factors are distance (isolation) and economic capacity.

Australia's urbanisation and the correlated struggle of inland Australia has been well documented.

A model "*The Griffith Service Access Frame and the Fundamental Elements of Measuring Access Disadvantage in Australia*" has been developed by Dr Dennis A Griffith and a copy was provided to the Commission in Longreach on 4th March.

While My Council is not necessarily advocating a strict implementation of this model, the simplicity and transparency of the elements of the model are appealing. In any case the methodology should be reduced to a simple formulae incorporating as its major elements:

1. **Distance** (from major centres of population)

This concept is self explanatory.

**QUEENSLAND LOCAL GOVERNMENT
GRANTS COMMISSION
SUBMISSION TO REVIEW OF THE METHODOLOGY**

The current model is flawed in two ways

- it attributes disadvantage (by way of minimum expenditure threshold) to small Councils irrespective of their access disadvantage, i.e. small Councils close to major population centres
- it does not discount revenue raising capacity with an isolation factor – this is particularly relevant to personal income

2. Economic Capacity

This factor is more complex. Some key factors include:

- it is variable from year to year
- the mobility of capital and consumption can significantly skew the apparent capacity of a community
- the service contribution by governments and an increasingly centralised private sector e.g. the dramatic reduction in MIM's support for the Mount Isa community over the last decade
- high personal incomes do not translate proportionally to a capacity to pay – if the medicare system used this concept then the refund would be varied dependant on the individual capacity to pay

Economic capacity should only be applied to identify clear and significant disadvantage and therefore the majority of Councils should be at the benchmark

Other Recommendations

Other Grant inclusions should be applied but only applied to grants and subsidies received on a consistent basis – otherwise they do not relate to service provision and they will create significant distortions and uncertainty. The road grant portion of the FAG should not be included in assessing the general purpose grant.

Yours faithfully

**Andrew W O'Brien
Chief Executive Officer**