

ALGA NATIONAL ASSEMBLY

25 NOVEMBER 2003

STATEMENT BY DAVID HAWKER MP, CHAIRMAN, HOUSE OF
REPRESENTATIVES ECONOMICS COMMITTEE

Thank you for the opportunity to address you today on the House of Representatives Economics Committee's report *Rates and Taxes: A Fair Share for Responsible Local Government*. It is opportune timing that the Committee tabled its report yesterday, during the week local government is holding its annual assembly.

I note Mike Montgomery, in his President's Address yesterday, said that what local government desperately needs out of this inquiry is an acknowledgement that

- cost shifting occurs and is imposing a major burden on local government
- local government needs a fair share of national taxation revenue, and
- an intergovernmental agreement is necessary to end cost shifting to make sure that the Australian and state governments don't dud us.

Well,

1. the Inquiry report details the extent and breadth of cost shifting estimated at between \$500m and \$1.1b.
2. It calls for an intergovernmental agreement to make sure you are not duded by other levels of government, and

3. It calls for a COAG summit in 2005 to work out which level of government does what best and look at funding to deliver those services.

The Inquiry into Local Government and Cost Shifting has revealed some stark and disturbing realities. The most immediate and obvious being that cost shifting is largely a symptom of a growing crisis of Australian governance. Our system of federalism is fracturing under the weight of duplication and coordination costs between three levels of government and it is costing the Australian community around \$20 billion a year. This cannot continue if we are to remain competitive internationally.

I would hope that this report marks the beginning of new reform of governance and consequently, financial arrangements, in Australia.

States' cost shifting

All levels of government have engaged in cost-shifting in some form or another and the States in particular have done so for many years. It appears to have become more frequent since the changes to the Local Government Acts in the States.

Not only are State governments gaining through the GST, they also cost shift and then continue to call on the Federal government for more for service delivery arrangements.

As the Committee heard at the same time, for example with the withdrawal of State health services, some rural councils are digging into their pockets to help fund doctors, nurses and dentists.

That is one reason why the report recommends that consideration be given to extending the Australian National Audit Office's powers to examine the spending by States of Federal Specific Purpose Payments through to local government.

In Victoria, revenue denial is an issue. That is, the failure of the State government to index statutory fees and charges which account for more than 15% of one city council's revenue. Rate capping, peculiar to NSW, is of course a major revenue denial. And some would say it is a disincentive to councils to improve performance.

Meanwhile local government is doing more with less. Local government is the one common feature of all regions and Federal agencies would do well to make better use of its local knowledge and experience when formulating policy and programs.

Infrastructure

A disturbing picture highlighted was the state of the infrastructure managed by local government. The Department of Transport and Regional Services assesses the value of local roads at about \$75 billion and an annual local road spending shortfall of about \$630 million.

The Federal investment through the Roads to Recovery program has been vital. It was disappointing to hear that one State reduced its local road funding in response to R2R. Such an attitude undermines what should be a collaborative effort to address a very serious problem.

New funding arrangements

Another stark reality is the widening gap between urban and rural councils. The Committee heard from many innovative, enterprising and hard-working councils from remote to urban and small to large. While some manage, albeit with increasing difficulty in the face of wide-spread cost shifting, revenue denial and increasing community demands, others, particularly in rural and remote Australia, struggle to survive.

In light of this compelling evidence, the report recommends a new funding approach based on equalisation principles.

Some will remember of course, that the original Local Government Grants Bill presented to the Parliament in 1974, stated “the grants are designed to reduce inequalities between local government bodies in the provision of ordinary services. However, these funds should in no way be a substitute for revenues normally raised by councils by long established methods such as rates and charges for services, nor should they replace assistance normally provided by State governments.” Today’s unanimous report also supports its original intention through the proposed new funding arrangements.

The proposed arrangements will result in a national model consistent across all Local Government and be distributed direct to local government from the Federal government in an effort to increase transparency and cut duplication as well as recognise the capacity of a community to pay.

Inter-governmental Agreement

In the quest to get the funding right between State and local government, the Committee concluded that a tri-partite Inter-governmental Agreement should be considered and that the Federal Treasurer's responsibility to manage financial relations with the States be extended to include local government. This would help to ensure cost shifting between the spheres of government is dealt with. Make no mistake this needs a concerted effort and should not be sidetracked by party politics.

If we look overseas and made an international comparison of government spending in classic federations like ours which includes Canada, and the United States shows that in Australia, local level government spending/outlays are far smaller than in the other countries.

Country	Central government	State government	Local government
Australia	54%	40%	6%
Canada	40%	42%	18%
Switzerland	51%	28%	21%
United States	52%	22%	26%

Roles and responsibilities

The roles and responsibilities of local government is a vexed issue as they differ between councils and states, representing the extreme diversity of our demographic, geographic, cultural, social, economic and environmental landscape.

I think it is time that we, as a nation, focused on the complementarity of all these differences. Already, some State governments have forged fruitful partnerships with local government, an initiative which, it is hoped, will include, where appropriate, the Federal government.

Identifying who does what and who can do it best is for the three levels of government to sort out. That is why the Committee recommends a Summit on Inter-government Relations to be hosted by COAG in 2005.

COAG Summit

This Summit would review current financial arrangements, look at service provision, infrastructure needs and the processes needed to reduce cost shifting and unfunded mandates.

A very important agenda item for the Summit is to work out how to make sure that Federal/State/Territory responsibilities administered by local government are adequately funded.

The Summit would also report on the implementing the recommendations of our Inquiry.

The Summit is seen as the opportunity for all levels of government to work out the best possible administrative arrangements for the country; in short, a blueprint for the future.

Adjustments on the part of all levels of government are going to be needed and good will is essential if we are to reform the way we, as a nation, manage our business. Failure to move forward on this matter will mean more of the same; the waste of precious resources, frustration on the part of both the community and government and most importantly, the holding back of the nation.

At this stage I would like to recognise the commitment, determination and hard work of my deputy chair, Anna Burke, who worked tirelessly to ensure a unanimous report delivered both practical, and some would claim radical, outcomes which pave the way for a stronger future for governance.

The federal government now needs local government to step up to the plate and join with us and the states to make the summit work to help rearrange the way we do the nation's business for the benefit of all citizens.

In closing, I would like to thank the President of ALGA, Mike Montgomery for his quick and strong support for the Committee's report. I urge that the momentum for reform will continue, and seek the support of all of you in that challenge.