

The way forward

- 7.1 At the Committee's final hearing on local government and cost shifting a senior official of DOTARS made the following comment:

The FAGs Act is really structured on the basis that local government is a creature of the states. It does not provide a direct relationship in that sense. ...To move away from that requires the Commonwealth to take a quite different view of local government, its relationship with it and its governance. That is a debate which really has only just started – it is probably a starting point which the committee's report will provide some guidance to government on.¹

- 7.2 The Inquiry has highlighted a number of issues that must be addressed and can only be resolved by all spheres of government working together. Cost shifting is, ultimately, a symptom of what has become dysfunctional governance and funding arrangements. It is time to combine the best efforts of governments and choose a better way.
- 7.3 There have been many demands for the three spheres of government to work more closely and eliminate duplication and wasted resources. In a shrinking and increasingly competitive world, the luxury of three spheres of government, with often different agendas, in a country of nearly 20 million people is straining our resources.

1 DOTARS, Official Hansard, 27 June 2003, p. 894.

- 7.4 According to Mr Drummond of the Division of Management and Technology, University of Canberra, it has been estimated that the full extent of duplication and coordination costs under the current arrangements probably amount to more than \$20 billion per annum.²
- 7.5 It is time for us to closely examine the way we govern ourselves. The LGASA summed up best what all governments need to do:
- To align the efforts, activities and financial relationships of the three spheres of government so that they can work together effectively beyond single terms of office or party political approaches.³

Summit on Inter-governmental Relations

- 7.6 A Summit on Inter-governmental Relations, referred to in Chapter 6, provides the forum to discuss the issues which stand in the way of cooperative governance in Australia. The deliberations and outcomes of the Summit should provide a blueprint for the future.
- 7.7 The Committee envisages the Summit to be the starting point for a national effort to improve Australia's governance and consequent financial arrangements. A whole-of-government approach is required however to bring about change - a change which could be a turning point for the country.
- 7.8 Local government is recognised as an integral part of the federal system of governance and, as such, should be included in all future inter-governmental activities.
- 7.9 It is encouraging to note that in July 2003, through the *Framework for Cooperation on Regional Development*, Federal, State and Territory regional development ministers and local government agreed to the following principles in order to deliver government policies, programs and services to regional communities:⁴

Governments will seek to minimise duplication and overlap.
The three spheres of government agree to clarify roles where

2 Mr Drummond, Submission No. 331, p. 12.

3 LGASA, *Future Directions*, 2002-2003 Initiatives, p. 2.

4 DOTARS, *Framework for Cooperation on Regional Development*, July 2003, p. 2. Online: <http://www.dotars.gov.au/regional/rdcouncil/rdcframework.aspx>, Accessed 1 September 2003.

there is confusion and duplication, and to work together in areas where there will be significant benefit to regional development.

Governments will encourage communities to set their own priorities. Government policies and programmes will foster community empowerment and mobilise community resources to enable regions to better develop their capacity to determine their own future. Leadership and skills development are especially important in addressing systemic improvements in the capacity of communities to lead their own development.

Governments will cooperate with each other. Governments will share best practice and develop innovative, flexible and cooperative arrangements to meet the circumstances and needs of different regions better. This includes improving access to, streamlining, and enhancing government business and social services, including program delivery. Examples of such arrangements include joint funding, co-location, agency agreements and bilateral agreements, and collaborative research.

Governments will cooperate with the private sector. Governments and regional communities will work closely with business, whether internal or external to a region, to facilitate an environment conducive to private sector investment.

Governments will seek to use existing structures. Government policies, programmes and services developed in partnership with regional communities will seek to identify and build on existing structures and networks within regions.

Governments will seek to build on the competitive and comparative advantage of regions. Governments and regional communities will work closely together so that government assistance is effectively channelled to further develop sustainable regional competitive and comparative advantage.

Governments will consult with each other, wherever possible, where new programmes and services are being developed. Governments will establish consultative mechanisms to ensure effective and practical implementation of new programmes and services.

Governments will maximise their contribution by finding new ways to leverage existing resources to achieve better outcomes.

7.10 As Australia is comprised of regions whether in the city or the bush, the Committee believes these principles should apply to all inter-governmental business and that the Summit on Inter-governmental Relations should adopt these principles as the basis of discussion for all issues on the agenda.

7.11 The Summit on Inter-governmental Relations could consider, for example :

Function of government -

- tri-partite partnerships - which level of government does what function best;
- the growth in the number and range of services now delivered by local government;
- local government impact statements to accompany all new legislation which affects local government; and
- the level of funding to follow functions.

Financial Arrangements -

- restrictions on, and capacity of local government to raise its own revenue;
- measures to prevent future cost-shifting by all levels of government;
- review of Specific Purpose Payments;
- the state of infrastructure;
- borrowing capacity of local government;
- performance monitoring; and
- structural reform of local government.

7.12 The LGASA stated that, if the imbalance between local government responsibilities and resources was addressed, the following benefits could include:

- growing independence of communities from reliance on central governments;
- strategic infrastructure maintained;

- greater capacity to address geographic inequity across the nation;
- maintenance or improvement in services and funding in communities;
- strengthened economic capacity (as a result of maintained infrastructure and service standards);
- greater capacity of communities to impact on their own future and to cope with external impacts;
- greater capacity of central governments to respond effectively to differing local needs; and
- enhanced international competitiveness due to all of the above factors.⁵

However, LGASA contended that the converse could be expected if nothing is done to address the imbalance.

- 7.13 The Committee's recommendation in Chapter 6 that the Federal government's funding of local government revert to equalisation principles is a start, aligning funding with need. While those LGBs most in need through cost or revenue raising disadvantages would benefit, such a move requires a responsive commitment from councils to build their capacity and performance as a result of that increased funding; a performance partnership if you like.
- 7.14 Cost shifting, largely but not exclusively, at the hands of State governments cannot continue. There are, of course, a number of ways in which the Federal government could respond, many of which have been suggested by the local government sector. For example, the Federal government could:
- estimate the size of the cost shift on a State by State basis, deduct that amount from payments to the States and allocate that amount directly to local government; and
 - quarantine a portion of SPPs to local government.
- 7.15 The Committee considers that a review of the current arrangements and the commitment to get things right would be productive. Adjustments on the part of all levels of government are needed and good will is essential. 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 as we compete on the world stage.

5 LGASA, Response to Questionnaire No. 120, p. 1.

- 7.16 Greater appreciation of the role and responsibilities of local government is required at the Federal level. Thus, in the quest to get the financial balance right between State and local government, a tri-partite inter-governmental agreement should be considered.
- 7.17 The Committee concluded that the Federal Treasurer's responsibility to manage financial relations with the States should be extended to local government. Such an arrangement would help to ensure cost shifting between the spheres of government ceases and that the maximum value is extracted from the allocated tax dollar.
- 7.18 The Committee believes that this Inquiry has demonstrated clearly the desire of local government to work with the Federal government and hopes that State governments will embrace the proposed changes as a genuine attempt to forge a new, fair funding partnership between the three spheres of government which will better serve Australians wherever they happen to live.

Recommendation 17

- 7.19 **The Committee recommends that COAG host a Summit in 2005 on Inter-governmental Relations:**
- **to report on the implementation of the Committee's recommendations;**
 - **to review:**
 - ⇒ **SPPs paid to States and Territories with a view to isolating funds for direct payment to local government;**
 - ⇒ **the relevant anomalies of ANTS;**
 - ⇒ **the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity;**
 - and**
 - ⇒ **successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;**
 - **to determine processes to develop:**
 - ⇒ **methods to resolve duplication and overlap of service provision;**
 - ⇒ **a fully responsible financial role for local government free**

- from policies that arbitrarily limit revenue raising capacity from their normal sources;**
- ⇒ **a direct financial relationship between the Commonwealth and local government;**
 - ⇒ **a national methodology for local government bodies to evaluate their infrastructure needs and requirements; and**
 - ⇒ **a set of principles to reduce cost shifting and unfunded mandates and to ensure that Commonwealth and State and Territory responsibilities administered by local government are adequately funded.**

Recommendation 18

- 7.20 The Committee recommends that the Federal Treasurer assume responsibility for the financial relationship with local government.**

David Hawker MP
Chair
24 October 2003