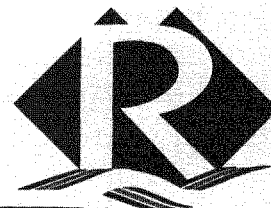


Our Ref: **Government Relations\Inquiries\Local Government and Cost Shifting**
Enquiries: **Bradley Duke**
Telephone: (07) 4936 8286
Facsimile: (07) 4922 7351
Email: dukeb@rcc.qld.gov.au



15 April 2003

House of representatives Standing Committee on Economics, Finance and Public Administration
Submission No: 369
Date Received: 22/4/03
Secretary:

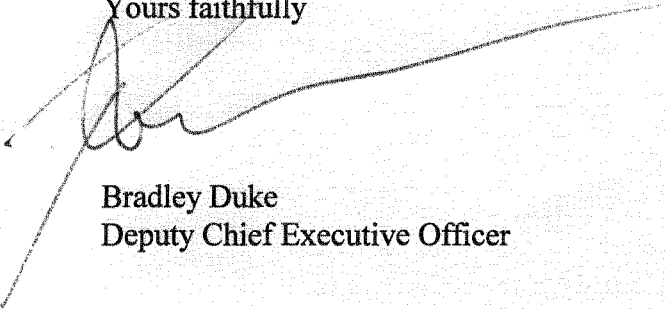
The Secretary
Standing Committee on Economics, Finance and Public Administration (Cost Shifting
Inquiry)
House of Representatives, Parliament House
CANBERRA ACT 2600

Dear Sir

**SECOND SUBMISSION TO THE COST SHIFTING INQUIRY FROM
ROCKHAMPTON CITY COUNCIL**

Enclosed for your consideration is Council's second formal submission to the Cost Shifting
Inquiry.

Yours faithfully


Bradley Duke
Deputy Chief Executive Officer

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**Rockhampton
City Council**

Bolsover Street
Rockhampton
Queensland

PO Box 243
Rockhampton
Qld 4700

Telephone (07) 4936 8000
Facsimile (07) 4922 1700
Email enquiries@rcc.qld.gov.au

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AUSTRALIA
ROCKHAMPTON
26 APRIL - 4 MAY





2nd Submission for the Cost Shifting Inquiry

Foreward:

Rockhampton City Council's first submission to the Cost Shifting Inquiry was lodged in August 2002. During 2002, the Council also participated in providing information and internal statistics to help in the production of the Local Government Association of Qld (LGAQ) submission to the Inquiry.

Council has been very interested in the progress of this Inquiry. Council has considered reports regarding its position of a number of issues (*based on the At the Crossroads – Discussion Paper, February 2003*) and the Chief Executive Officer attended the Inquiry Hearing in Noosa on Tuesday 11 March 2003.

Council's second submission will involve responses to the questions posed in the *At the Crossroads – Discussion Paper, February 2003*.

Background:

Rockhampton is included in the (ABS) *Fitzroy Statistical Division*, which covers an area in excess of 123,000 square kms encompassing twelve (12) local government areas including the cities of Rockhampton and Gladstone. In 2001 the total population for the statistical area was 182,169 persons - the average annual growth rate was .2% per annum from June 1999 – June 2000. Gladstone is the next largest centre with approximately 26,574 people or 15% of the region's population.

Rockhampton has an estimated population of 59,410 as at 30 June 2002. There are four (4) local government areas within very close proximity that make up the Rockhampton district. The growth predicted to 2016 for Rockhampton and surrounding shires is as follows:

AREA	2000	GROWTH	%
Rockhampton	59,153	492	1
Fitzroy	9,988	4,140	42
Livingstone	25,508	15,735	62
Mount Morgan	2,695	(679)	-25
TOTAL	97,344	19,688	20%

Whilst Rockhampton City is predicted to have little growth, it is however the business centre for the surrounding shires and due to the close proximity, infrastructure and community facilities are regularly shared between shires. The *regional role* Rockhampton plays in Central Queensland (CQ) is stressed and acknowledged in the annual Grants Commission return to the state government. The growth rate for the Rockhampton region (20% above) and the Fitzroy Statistical Division (20%) is projected at an attractive level.

Rockhampton's position:

The Inquiry to date has highlighted obvious cost-shifting from the higher level governments to local government. The results also show that the Financial Assistance Grants (FAGs) are not providing adequate funding to local government for their now expected roles and responsibilities within communities. Infrastructure, Australia wide is failing and local government's ability to review and increase its revenue base and or capacity is either restricted by legislation or having declining populations that have no capacity to pay.

When we understand the complexity and rapid change impacting on Qld local government over the last 10 years, we can see why a number of roles and responsibilities, previously undertaken by the state government, have somehow made their way to local government jurisdiction. The simple answer is legislation and government executive powers. Over the last decade, Qld local government has been *bombarded* by the following reforms that have seen roles and responsibilities shift.

- Local Government Act 1993
- Integrated Planning Act
- Environmental Protection Act
- National Competition Policy
- Workplace and Safety
- Equal Employment Opportunities
- Crime and Misconduct Commission
- AAS27 – Accrual accounting
- Anti-Discrimination
- COAG water reforms and Water Act

It is appreciated that number of these pieces of legislation were considered necessary due to antiquated laws and regulations. However there is always a cause and an effect and who can best deliver services closest to the people – local government.

In addition, Councils have seen it necessary to engage in policing and security responsibilities as a result of a policy choice and or increased community expectations. The CBD area in Rockhampton has seen a marked increase in public drinking, substance abuse, vandalism and crime and due to limited Police resources (as Council is told), the Council takes on the role of city guardian with ever increasing financial commitments. The state government provides capital funding for CCTV (50% subsidy), but it is the public that expects local government to deliver and coordinate state government responses.

This Council as have many others acknowledge that the devolution of responsibilities from both state and commonwealth government has expand continuously with little or no on-going financial commitment or service. This cannot continue and this is why Rockhampton is supporting the negotiation of a formal intergovernmental agreement (IGA) on government service provision that will cover areas of revenue sharing and the rationalisation of roles and responsibilities between the levels of government. This in turn may result in less duplication and bureaucracies.

RESPONSES
COST SHIFTING INQUIRY DISCUSSION PAPER

QUESTIONS

Changing role of local government

1. Is there a need for significant changes to local government 's current package of roles and responsibilities?

The current roles and responsibilities as such are satisfactory however greater definition and demarcation of its roles with respect to State and Commonwealth Governments is required. An inter-government agreement (between Federal – State – Local Government) should be created that details which area of government is responsible for the various functions of government. This proposal may see some obstacles across the government bureaucracies, however it could address and seriously consider a rationalization of roles, responsibilities and services each level of government has involvement with.

In some circumstances e.g. remote Councils, there may be justification for the integration of some State and Commonwealth Government roles to ensure that the community is able to enjoy a full range of services.

2. Should there be greater differentiation of responsibilities between larger, better resourced Councils and those with small populations and limited revenue?

Yes, it is essential that a situational approach be taken to reviewing the role of local government. A uniform prescribed approach will not accommodate the incredible diversity of local governments throughout Australia. The Inquiry should also consider other parameters besides population size of revenue capabilities. Other factors considered just as relevant would include remoteness and other social and economic circumstances.

3. Is there a need in some regions for restructuring to improve the viability of Councils?

Yes, a case can be presented that argues that the one system of local government does not accommodate the diversity that exists across cities and shires that are in close proximity to each other. In addition, "smaller" local governments that have a relatively low financial capacity are sometimes disadvantaged as increasing demands by residents living in these areas for improved community standards/services and infrastructure cannot be achieved.

Conversely there are other local governments (*donut Councils*) where cross subsidization of services and facilities is very evident, particularly in Rockhampton, whereby Rockhampton City Council provides services and facilities enjoyed by neighbouring communities/shires throughout the *Fitzroy Statistical Division* without any recompense. This "regional role" is always stressed in Council's annual Grants Commission return to the State Government.

Nature and extent of Cost Shifting

4. Is cost shifting a growing problem?

The *Discussion Paper* clearly demonstrates evidence the Australian local government is under growing pressure to fill service voids. Clearly the financial burden on Councils has been demonstrated without growth-based revenue.

5. Are there examples of successful State-Local Government arrangements to deal with cost shifting?

State governments tend to focus on capital funding rather than operational funding hence short- term incentive programmes are offered in lieu of a long term funding partnership. In most cases State Government support is subject to matching contribution being made by local government which is very rarely guaranteed for the long term and hence "cost-shifting" occurs by default. The State Government withdraws funds, the community is becomes used to the service (*over say a 12-24 month period*) and hence pressure is applied by local stakeholders and groups for the retention of the service by local government. There are some examples in Queensland such as the *Local Area Multicultural Programme* which provide fully funded programmes.

6. How might the Commonwealth promote a more comprehensive approach to reducing cost shifting?

Effective promotion in the current environment will only be successful through legislation or the cost will continue. States have shown limited support in the participating in this inquiry to date. The Commonwealth Government is "fair dinkum" about this Inquiry then it should introduce the following legislative requirements as mandatory.

1. Require State Governments to declare trends in cost shifting to local government as a condition of its financial support by the Commonwealth Government
2. Require State Governments in future to legislate to give effect to the devolution of any of its responsibilities to local government in lieu of devolution under its executive powers
3. Require State Governments to meet minimum term funding obligations for any new operational subsidy that is offered to local government

Local government's revenue base

7. What specific steps might be taken to generate significant increases in income from local government's established revenue base?

By commonwealth legislation:

1. Require State Governments to strengthen the local government powers to raise revenue for extraordinary needs e.g. special rating and enterprise powers (as available in the *Old Local Government Act 1993*).
 2. Ensure the distribution of a fixed percentage of the GST to Local Government (untied) either directly or via the State Governments.
-

3. Negate State Government powers to arbitrarily impose rate capping of any sort (this arbitrary legislation does nothing more than accommodate wages increases under the Award).

8. *How might a betterment tax in locations of rapid growth work in practice?*

A betterment tax has some merit in areas of rapid growth and development. For example, land valuation could be based on the appreciating value of the land and its improvements (capital improved value) and from there the rate could be struck. Or the application of a separate fixed rate (growing revenue with increasing valuations) quite distinct from the general rate will allow for a betterment tax.

9. *In what ways should the certainty and predictability of financial arrangements with other spheres of government be improved?*

Again a key term of reference for this Inquiry involves "*current funding arrangements for local government, including allocation of funding from other levels of government*". The more filtration mechanisms and layers of government that are put in place the lesser funds will flow to local government.

At the commonwealth level their needs to be bipartisan support between the two (2) major political parties including policy development and legislative compliance to address the following:

1. Legislation to force state government funding programmes being a minimum three (3) year rolling allocations to allow local governments to properly plan for and manage new programmes and works
 2. Major funding programs should be legislated to ensure longevity e.g. Commonwealth Government's ABRD and ACRD road funding programs of the 80's
 3. Legislate to ensure the distribution of a fixed percentage of the GST to Local Government (untied) either directly
-

Infrastructure maintenance and improvement

13. What is the scope for specific measures to enhance local government's revenue base to meet infrastructure needs – for example, infrastructure levies and increased borrowing?

Again with the diversity of local government and the communities its services, there are real examples where some Councils have little or no scope to raise additional revenue. Generally the 1990s trend towards “zero-debt” has left many local governments relatively low geared with ample capacity to borrow to greater levels though this should be applied to new infrastructure or the enhancement of existing assets. Increased borrowings and infrastructure levies are normally applied to capital works. However research to date (as part of the Inquiry) has highlighted an urgent need for funding for periodic and preventive maintenance programmes for infrastructure assets.

14. How could supplementary Commonwealth assistance continue to be financed within the constraint of budget neutrality?

Only through bipartisan support and agreement by the two (2) major political parties, “Roads to Recovery” and similar infrastructure funding programmes should be continued and this in turn should necessitate the relocation of commonwealth government priorities no matter what party is in government. A percentage of GST revenue should be quarantined to ensure and national response to the problem of deteriorating infrastructure.

As mentioned earlier a state government filtration system is not conducive to efficient and effective local government. The Commonwealth Government should reduce financial assistance to the states and increase the FAGs to local government.

15. How could the States also provide increased support for local infrastructure?

Rationalise state government infrastructure departments and apply funds to local government. The state government should also maintain and expand existing capital works subsidy programmes for local government.

Financial Assistance Grants

10. Is there a case for reducing or abolishing the minimum grant?

Yes, providing that alternative funding programmes are in place for extraordinary circumstances and that these programmes flow directly from commonwealth government to local government.

11. Is there scope to adjust the inter-state distribution and rationalise the different arrangements for general purpose and local roads grants, assuming both remain untied in the hands of Councils?

Yes, providing any proposal here can effectively accommodate the incredible diversity of Australian local government and their financial needs for sustaining their communities.

12. Would the FAGs system benefit from a clearer statement of Commonwealth policy direction and a formal inter government agreement on objectives and processes? If so, how should this be done?

Please see response to question 11, also Council strongly supports untied FAGs.

Regional cooperation

16. Taking into account inevitable limits on funding, what are the strategic priorities for Commonwealth involvement in regional planning and development?

The Commonwealth Government should limit its focus to regional issues with national implications only.

17. On what basis would local government be willing to resource a strong, effective system of ROCs across most of Australia and significantly expand the level of regional co-operation and resource sharing amongst Councils as a key element of service delivery?

Regional cooperation (and the establishment of ROCs) with strength and unity across local governments was borne out of a strong desire to improve focus, economic development opportunities and initiatives and prompt the state government to take notice of "our industry" and not merely one Council out of 125 (in Qld). The essence of successful regional cooperation is dependent on local ownership and mutual respect for objectives. This is considered so critical that any attempt to impose unilateral or arbitrary mechanisms is likely to succeed.

Scope for rationalisation

18. What are the specific areas in which local government sees a need to rationalise roles and responsibilities with the Commonwealth and State?

1. Road systems need not be subject to three levels of management. The privatisation of 'commercially viable' roads and the devolution of all others to local government is one proposal worthy of consideration
2. The gradual growth of local governments role in managing and delivering 'social services' including health, aged, and family services needs rationalisation as it is currently subject to three levels of government.
3. Police and security services are an area in which many local governments have by necessity filled service voids. This issue requires urgent attention in many areas.

Some local governments do not have the financial capacity and in some cases, the skills base to "absorb" roles and responsibilities that over the years have been accepted as state and commonwealth government responsibilities. The local government ratepayer sees his/her taxation (via the rates notices), where does all the other tax revenue go if state and commonwealth services are now being performed by local government?

19. Is there sufficient exchange of information between States on 'best practice' inter government relations? If not, how much could such exchange be improved?

Best practice inter-government relations is most probably subject to resolving structural issues across the three (3) levels of government in the first instance.

20. Should the approach advocated for AusLink be applied more widely? If so, what would be priority areas?

Many aspects of the Auslink approach are supported however there is some concern remaining. The delivery of social services, particularly health, aged and family services, might be areas for consideration. However caution should be exercised to ensure that structural issues are rationalised prior to any major programme management reform.

Capacity building and accreditation

21. Should capacity building for local government be approached on a national basis? If so, what are the priorities for a national program?

The term “*capacity building*” is of concern as it infers a teacher-pupil relationship. Local governments are best placed to know the needs of their communities and their capacity to meet them.

22. What sort of organisational framework is required to ensure an effective capacity building effort?

This should be established in partnership with the Commonwealth, State and local governments if necessary at all.

23. Would local government support some form of accreditation assessment in return for an increased role in the administration of Commonwealth programs?

This should be established in partnership with the Commonwealth, State and local governments if necessary at all.

COMMENTS ON “SOME OPTIONS”

Finance and Cost Shifting

Option	Possible response
<p><u>Option 1a</u></p> <p>Negotiate an umbrella inter government agreement on FAGs incorporating some or all of the following elements:</p> <ul style="list-style-type: none"> • a clear statement of the Commonwealth’s policy intent • adjustment of the escalation factor to match increases in GST revenue or GDP • changes to the interstate distribution to redress apparent anomalies • reduction of the minimum grant to direct additional funds to needy Councils • making grants conditional on an adequate revenue effort, the continued viability of recipient Councils and effective arrangements to secure efficiencies through regional co-operation and resource sharing (including merging Councils where appropriate) • removal of unwarranted State restrictions on local government revenue and substantial reductions in cost shifting • reporting on expenditure 	<p>Generally this option is supportable providing that;</p> <ul style="list-style-type: none"> <input type="checkbox"/> Local Government is satisfactorily represented in negotiations and <input type="checkbox"/> the outcome can effectively accommodate the incredible diversity of local governments and their financial needs and <input type="checkbox"/> the funds remain untied. <p>The conditional element of regional cooperation however may present some difficulty as the essence of successful Regional Cooperation (including possible amalgamations of Councils) is dependant on local ownership and mutual respect for the objectives. This is so critical that any attempt to impose unilateral or arbitrary mechanisms is unlikely to succeed.</p> <p>The conditional reporting element is likely to be acceptable only if it does not arbitrarily create additional unnecessary demands on local government.</p>

Option	Possible response
<p><u>Option 1b</u></p> <p>Treat FAGs simply as a tax transfer with a simplified distribution system and formula, administered nationally</p>	<p>This may be supportable providing that the attractive conditional elements of Option 1a are included.</p>
<p><u>Option 1c</u></p> <p>Deliver FAGs through a model of broad-banded program grants to facilitate local government role in key national initiatives such as regional development, transport, environment etc.</p>	<p>This is rejected.</p>
<p><u>Option 1d</u></p> <p>FAGs to be delivered as tied grants.</p>	<p>This is rejected.</p>

Option	Possible response
<p><u>Option 1e</u></p> <p>Consider other horizontal equalisation formulas for local government funding such as the SES formula used by DEST for funding the non-government school sector.</p>	<p>This is rejected.</p>
<p><u>Option 1f</u></p> <p>Deliver FAGs through the <i>Roads to Recovery</i> model.</p>	<p>This is rejected.</p>
<p><u>Option 2</u></p> <p>Include local government in negotiations for the next Commonwealth-State financial agreement and specifically consider:</p> <ul style="list-style-type: none">• The ongoing financial viability of local government in relation to its roles and responsibilities, and the need and scope for increased Federal and State support• The need to reduce cost shifting and revenue restrictions imposed on local government (unless already addressed under Option 1).	<p>As the third tier of government in Australia, Local Government warrants mandatory inclusion in all COAG and related negotiations.</p> <p>This option appears to be simply a variation to the means of negotiation and is supportable providing the attractive conditional elements of Option 1a are included.</p>

Option	Possible response
<p data-bbox="235 375 369 406">Option 3</p> <p data-bbox="235 446 1086 486">Through the Local Government and Planning Ministers Council:</p> <ul data-bbox="235 518 1086 928" style="list-style-type: none"><li data-bbox="235 518 1086 630">• Investigate the principal factors that impinge on the adequacy and effective utilisation of local government's own revenue base<li data-bbox="235 638 1086 821">• Disseminate best practice in Council revenue-raising, and recognise the efforts of those Councils demonstrating a responsible and innovative approach to maximising revenue consistent with expenditure needs and community capacity to pay<li data-bbox="235 829 1086 928">• Examine the ongoing viability of smaller rural Councils and possible need for alternative models of local government in some areas	<p data-bbox="1099 446 1848 518">This is rejected, as it is an indirect path likely to result in centralised consideration and imposition of solutions.</p>

Infrastructure funding

Option	Possible response
<p>Option 4</p> <p>Conduct a national study into local infrastructure needs and funding in order to:</p> <ul style="list-style-type: none">• Fill the gaps in current knowledge and reach a national consensus on the magnitude of the problem• Consider a wide range of funding options including local infrastructure levies and increased but cautious use of borrowing	<p>The objective of building more sophisticated and complete asset information is supportable though the task should not be a precursor to other reforms as the experience of State and Local Governments is that the task is formidable however the outcome is readily predictable i.e. infrastructure is not sufficiently funded.</p> <p>It should be noted that borrowing and infrastructure levies would normally be applied to Capital works, however the real need for funding lies in the periodic and preventative maintenance programs.</p> <p>As previously mentioned, a percentage of GST revenue should be quarantined to ensure and national response to the problem of deteriorating infrastructure.</p>
<p>Option 5</p> <p>Maintain Roads to Recovery into the longer term, either in its current form or as a component of AusLink.</p>	<p>Agreed in its current form.</p>

Regional Cooperation

Option	Possible response
<p>Option 6</p> <p>As a general rule, ensure that Commonwealth-funded programs involving local government and a regional planning or delivery mechanism make use of established regional organisations of Councils (or equivalent) rather than establish parallel bodies, provided the ROCs have demonstrated capacity.</p>	<p>Agreed.</p>

Rationalisation

Option	Possible response
<p>Option 7</p> <p>Through the Local Government and Planning Ministers Council:</p> <ul style="list-style-type: none"> • Negotiate an inter government agreement on principles and procedures for the future transfer of functions and financial obligations from the Commonwealth and/or States to local government, as well as the imposition of new functions • Regularly review and disseminate best practice in State-Local government relations, particularly in relation to co-operative planning and service delivery. 	<p>Agreed in conjunction with Option 1a providing that;</p> <ul style="list-style-type: none"> ❑ Local Government is satisfactorily represented in negotiations and ❑ the outcome can effectively accommodate the incredible diversity of local governments and their financial needs ❑ 'best practice' inter-government relations is subject to prior resolution of structural issues
<p>Option 8</p> <p>Ensure that local government is a party to negotiations and a signatory to all SPP agreements covering functional areas in which it has significant responsibilities, using the AusLink approach as a model.</p>	<p>This is supportable though the reference to the Auslink approach is questioned.</p>

Capacity building and accreditation

Option	Possible response
<p>Option 9</p> <p>Use a 'top slice' of FAGs (perhaps 0.5%) to fund a national capacity building agency along the lines of UK Improvement and Development Agency (IDeA)</p> <p>Give the capacity building agency responsibility for accrediting Councils and regional organisations of Councils wishing to become agents for the delivery of Commonwealth programs.</p>	<p>This is not supportable.</p>

ALGA Supplementary Submission (12 February 2003) to Inquiry

Council fully supports the following salient points make in the ALGA Supplementary Submission (12 February 2003) to Inquiry:

- The lack of comprehensive, objective data quantifying the problem of cost-shifting leads to ambiguity. The Productivity Commission must be employed to provide credible data to guide policy development on the issue of cost-shifting.
 - As a major tax earner, the Commonwealth must address the current revenue sharing problems that leave local government seriously disadvantaged.
-

- A formal intergovernmental agreement (IGA) on government service provision, addressing key issues such as revenue sharing and a rationalisation of roles and responsibilities between the levels of government is required.
- Clear compliance measures must exist to ensure all spheres of government meet the terms of an IGA. The Commonwealth must act decisively to prevent cost-shifting.
- The current terms of reference are unrealistic. Resolving the problem of cost-shifting will have no more than a short term budgetary impact.

03 April 2003

Council's submission utilised the template developed by the Australian Local Government Association and this is formally acknowledged.

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