



SSROC

*southern sydney regional
organisation of councils*

Southern Sydney Regional Organisation of Councils

**Draft Response to Questionnaire on
Local Government and Cost Shifting**

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Finance and Cost Shifting

General Comments on Questions 1-12

SSROC agrees that cost shifting is a serious and growing problem. Regrettably, there are no measures in place to address the problem in NSW, although SSROC welcomes the recent announcement that regular meetings are now to be held between the Premier, senior Ministers and the local government associations.

SSROC strongly endorses the Committee's view (para 3.34) that action is essential to enhance local government's financial base. This requires a blend of additional Commonwealth support through the FAGs system (and particularly for infrastructure), plus better use of the existing revenue base. Specific measures should include:

- Accelerated annual escalation of FAGs equivalent to growth in GDP, GST or federal taxation revenue, and removal of the Treasurer's discretion to make arbitrary adjustments to the escalation factor
- Continuation of Roads to Recovery funding
- Removal of State restrictions on all forms of local government revenue raising (rates, fees and charges, developer levies etc), subject perhaps to an independent review mechanism
- Increased flexibility for councils to apply differential or special levies and levies eg for infrastructure provision, replacement, renewals or improvements
- Removal of State levies on councils (waste, fire brigades, planFIRST etc) - replaced if necessary by direct State charges on households and businesses
- Commonwealth and State political support (rather than explicit or implicit criticism) for councils that take necessary steps (rate increases, judicious borrowing etc) to improve their revenue base and address key issues such as infrastructure improvements

The Commonwealth could bring pressure to bear on the States to reduce cost shifting and remove unwarranted restrictions on local government revenue through intergovernment agreements on financial assistance to the States, specific purpose programs and the FAGs system. Such agreements should incorporate long-term arrangements to improve certainty of funding.

Provided action is taken on the revenue issue, SSROC sees no need for fundamental change to local government's roles and responsibilities. However, it agrees that there could be a need to differentiate between larger and smaller; poorly resourced; developed, developing and redeveloping councils so that the former are not restricted by 'lowest common denominator' regulations or limitations on functions.

Option 1a: Intergovernment agreement on FAGS

Support with qualifications - no changes to interstate distribution for *general-purpose* component, no reduction in minimum grant, no reporting on expenditure.

SSROC's original submission made it clear that the present system of FAGs should continue, although some adjustments could be appropriate. Option 1a offers a worthwhile approach to fine-tuning current arrangements, and in particular to addressing the problem of State restrictions on local government revenue and cost shifting.

It is essential that local government be an equal partner in negotiating the agreement and a full signatory.

SSROC would support:

- A clear policy statement that firstly articulates the expanded role of local government in the federal system, and secondly confirms that FAGS are an equalisation mechanism, thus highlighting the need to increase the quantum of funds - the CGC review made it clear that the current level of funding falls far short of what is required for equalisation
- Changing the escalation factor to either GDP or GST - the latter would offer consistency with the Commonwealth's treatment of the States
- A requirement for FAGs to be conditional on the continued viability of recipient councils
- Commonwealth pressure on the States to remove restrictions on local government revenue and reduce cost shifting - provided any sanctions did not involve reduced funding to local government.

SSROC would also be prepared to consider:

- Changes to the interstate distribution in respect of the roads component, to address issues such as the apparently excessive payment to the ACT and under-payment to South Australia
- Making grants conditional on an adequate revenue effort, provided this mechanism was genuinely negotiated with local government associations and was directed at allowing and encouraging councils to steadily increase revenue to more sustainable levels, *with the political support of the Commonwealth and States*
- A requirement for councils to demonstrate effective regional arrangements, again provided this mechanism was genuinely negotiated.

SSROC opposes any change to the interstate distribution for the general-purpose component on the grounds that local government roles and responsibilities differ markedly between States and a national equalisation approach would be impractical.

SSROC also opposes any reduction in the minimum grant or reporting on expenditure. These proposals are contrary to the principles that all communities are entitled to a share of Commonwealth financial support, and that FAGs are untied.

SSROC notes that the Discussion Paper did not address the comments in its submission concerning:

- The need to reduce the Treasurer's discretion in respect of the annual increase in FAGs
- The need to consider other funding sources to increase assistance to Indigenous community councils, especially in the Northern Territory
- The risk that the system of Declared Bodies could be abused.

SSROC again urges the Committee to consider these issues.

Option 1b: Treat FAGs as a tax transfer, administered nationally

Seek clarification

SSROC would be willing to consider a simplified distribution system and formula, provided:

- The mechanism is established as part of an inter-government agreement along the lines proposed in Option 1a, with local government as an equal partner.
- The formula is set by the CGC, and can only be changed following a CGC review and with the agreement of local government associations.
- The formula is reviewed at least every 5 years.
- The interstate distribution of the general-purpose component remains unchanged.

Options 1c to 1f: FAGs delivered through broad-banded program grants, tied grants, the *Roads to Recovery* model or an alternative equalization formula

Oppose with qualifications

These options all move away from the fundamental concept of FAGs being untied equalisation grants based on a holistic assessment of the revenue capacity and expenditure needs of local councils. They are unacceptable for the general purpose components of FAGs.

However, SSROC would be willing to consider a change to broad-banded program grants or the *Roads to Recovery* model with respect to the local roads component. Also, a system of broad-banded grants would be preferable to current arrangements for a number of special-purpose programs, where procedures are highly bureaucratic and wasteful of resources, especially in those cases where funds are 'double-handled' through State agencies.

Option 2: Include local government issues in Commonwealth-State financial agreement

Support

This option is consistent with SSROC's submission and Option 1a. Local government should be an equal partner in negotiations and a full signatory to relevant sections of the next Commonwealth-State financial agreement that impinge on it.

Option 3: Examine various issues through Local Government and Planning Ministers Council

Seek clarification

This option is consistent with SSROC's submission and Options 1a and 2. However, it is unclear whether the proposed investigations would be undertaken separately or as part of Option 2. SSROC is concerned that the Local Government and Planning Ministers Council may not be an effective forum for consideration of the broader intergovernment context. It would be essential that any work undertaken by the Council is completed before negotiations commence for the next Commonwealth-State financial agreement, and ratified by COAG.

Infrastructure Funding

General Comments on Questions 13-15

SSROC welcomes the Committee's focus on the need to ensure adequate funding for provision, replacement and renewal of local infrastructure. This is one of the greatest challenges facing councils across Australia.

The central issue here is the adequacy of local government's revenue base. All the measures discussed under the heading *Finance and Cost Shifting* are relevant. Councils need greater flexibility in revenue-raising, and Commonwealth and State support for taking necessary action, rather than criticism or political point-scoring. Judicious borrowing for major infrastructure improvements should be endorsed and anti-debt rhetoric toned down.

Commonwealth budget neutrality could be ensured by raising additional revenue if required or by adjusting priorities elsewhere. SSROC notes, however, that the budget forecasts are for continuing surpluses reflecting ongoing revenue increases due to economic growth and 'bracket creep'. SSROC also notes that *Roads to Recovery* is an existing budget item.

SSROC doubts that the States would be prepared to provide additional assistance to local government. In the first instance, the States' main contribution should be to reduce cost shifting and remove revenue restrictions and levies imposed on councils.

Option 4: National Infrastructure Study

Support

This option should be implemented in parallel with Options 1a, 2 and 3. The study could be carried out by the Productivity Commission.

SSROC is concerned, however, that the study be limited to compiling available information and limited additional research to fill *critical* gaps in the data. Much is already known about the problems: what is required is investigation of funding solutions, including increased Commonwealth assistance (see Option 5).

Option 5: Maintain *Roads to Recovery*

Support with qualification

Continuation of *Roads to Recovery* is absolutely essential: even at \$300 million per annum, the program is a relatively modest contribution to overcoming the current infrastructure funding deficit and offsetting the steady decline in the real value of FAGs over the past two decades. SSROC sees no difficulty for the Commonwealth in continuing to fund *Roads to Recovery* from projected revenues and/or budget surpluses. If absolutely necessary, SSROC would be willing to support a small supplementary fuel tax for local roads as suggested by the South Australian Local Government Association.

Regional Cooperation

General Comments on Questions 16-17

As indicated in its submission, SSROC sees a need for the Commonwealth to involve itself more strongly and effectively in metropolitan regions, and to resume support for voluntary regional organisations of councils (ROCs).

Clearly, local government in southern Sydney believes in the value of regional cooperation and member councils have provided substantial and consistent support for SSROC over many years. What they seek in return are tangible benefits such as those achieved through technical collaboration and joint purchasing, plus Commonwealth and State recognition of the role of local government at the regional level. Greatly increased local government support for ROCs across Australia cannot be expected unless federal and State agencies are prepared to partner with councils in regional program delivery, rather than routinely establishing their own specialist organisations or committees. Excellent models of intergovernment cooperation in regional planning and service delivery can be found in Queensland and Tasmania.

Resumption of modest Commonwealth financial assistance to ROCs would be consistent with regional planning and program delivery models proposed for the Natural Heritage Trust, Salinity Action Plan and AusLink. Increasing the capacity of local government at the regional level would also facilitate more effective Commonwealth-local government relations generally, to the Commonwealth's advantage.

Option 6: Ensure programs make use of established regional organisations

Support

This is consistent with SSROC's submission.

Rationalisation

General Comments on Questions 1 and 18-20

SSROC discussed the issue of rationalisation of roles and responsibilities at some length in its submission to the inquiry. The key initiatives required are:

- Formulating an agreed vision and framework for the future role of local government in the Australian system.
- Establishing intergovernment mechanisms to deal with inevitable overlaps in roles and responsibilities, to provide a basis for effective cooperation in planning and service delivery, and to avoid arbitrary imposition of additional responsibilities on local government or unwarranted interference in its affairs.

SSROC does not believe local government is keen to expand its functions much further - its role has already increased dramatically over the past 30-40 years. However, there is undoubtedly scope to fine-tune division of responsibilities with the Commonwealth and States in areas such as local environmental management, public health, community services and aspects of infrastructure provision, maintenance and renewal - subject in all cases to agreed, long term funding arrangements. There is also a pressing need to promote greater cooperation between governments in strategic planning, which is the essential starting point for any adjustments to roles and responsibilities.

As noted previously, Queensland and Tasmania offer excellent examples of how fine-tuning and strategic planning can be carried out through partnership arrangements. More broadly, there is a need for tripartite intergovernment agreements to promote and implement cooperative action. Ministerial Councils across the board should exchange and disseminate information on best practice in their particular fields of responsibility.

Option 7: Intergovernment agreement on principles for transferring functions and dissemination of best practice on State-local relations

Support with qualifications

<p>This could be a useful initiative, but SSROC has some concerns regarding the effectiveness of the Local Government and Planning Ministers Council acting alone. The issues involved cut across the responsibilities of a wide range of Ministerial Councils, all of which need to play a supportive role. Furthermore, consideration of best practice should also include Commonwealth-local government relations. Ultimately, COAG should sign-off an agreed framework.</p>

Option 8: Ensure local government is a party to all relevant SPP agreements
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Support

This approach is absolutely essential. *AusLink* could provide a valuable model, provided the proposals in the *AusLink* Green Paper are themselves subject to genuine negotiation and intergovernment agreement, with local government an equal partner and full signatory.

As an extension of this Option, the Commonwealth should use broad-banded program grants for local government activities wherever possible to streamline unnecessarily complex application and funding procedures, and to avoid 'double-handling' through State agencies.

Capacity Building

General Comments on Questions 21-23

SSROC drew attention in its submission to the need for the Commonwealth to resume financial support for local government capacity building. It did so because fragmented State-by-State approaches can be wasteful, because the States resources are limited, and because many issues are national in scope - for example exchange of best practice in financial management or infrastructure provision and maintenance.

SSROC also drew attention to the UK Improvement and Development Agency (IDeA) as a possible model. It understands that IDeA is funded in part by a small 'top slice' of the UK equivalent of FAGs, which are of course much more extensive than in Australia.

SSROC is unclear about the Committee's intentions with regard to 'accreditation'. Presumably federal agencies already satisfy themselves as to the capacity of councils with which they deal. For local government to submit itself to some more generalised accreditation process there would need to be real benefits eg streamlined funding arrangements with reduced compliance procedures, guaranteed payments of all costs involved in service delivery, or longer term funding guarantees.

Option 9: National capacity building agency funded by a 'top slice' of FAGs
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Support with qualifications / seek clarification

SSROC believes the Commonwealth should at least partly fund local government capacity building directly from its budget, as it did for many years through the Local Government Development Program. Use of a 'top slice' of FAGs would only be acceptable if there was a one-off increase in the FAGs base to inject the necessary funds - for example by restoring the \$15 million cut to the base made in 1996-97 when the real terms per capita guarantee was suspended.

As regards accreditation, SSROC seeks clarification of precisely what the Committee has in mind and the expected benefits for local government of playing an expanded role in delivering Commonwealth-funded services. SSROC believes that some Regional Organisations of Councils would be prepared to involve themselves in research, benchmarking and demonstration projects (which is really a continuation of their current role), but all accredited bodies would no doubt have some concerns about being presented as "agents of the Commonwealth". This suggestion therefore requires clarification.
