



COMMONWEALTH OF AUSTRALIA

## Official Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND  
PUBLIC ADMINISTRATION

**Reference: Local government and cost shifting**

FRIDAY, 27 JUNE 2003

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## HOUSE OF REPRESENTATIVES

### STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Friday, 27 June 2003

**Members:** Mr Hawker (*Chair*), Ms Burke (*Deputy Chair*), Mr Albanese, Mr Cox, Ms Gambaro, Mr Griffin, Mr Peter King, Mr Nairn, Mr Somlyay and Dr Southcott

**Members in attendance:** Ms Burke, Mr Cox, Ms Gambaro, Mr Hawker, Mr Nairn, Mr Somlyay and Dr Southcott

#### **Terms of reference for the inquiry:**

To inquire into and report on:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.
4. Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.
5. The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission <http://www.cgc.gov.au>/Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.



**Committee met at 9.08 a.m.**

**Participants**

**ANDERSON, Mrs Joanne, Member, Victoria Grants Commission**

**BEADMAN, Mr Robert, Chairman, Northern Territory Grants Commission**

**BRAYBROOKS, Mr Michael Paul, Treasurer, Shires Association of New South Wales**

**BURGESS, Mr Mark Anthony, Chief Executive Officer, Police Federation of Australia**

**DALY, Emeritus Professor Maurice, Chairperson, New South Wales Local Government Grants Commission**

**DELAHAUNTY, Mr Lindsay, President, Local Government Managers Australia**

**DOHERTY, Mr Dermot James Patrick, Representative, Commonwealth Grants Commission**

**EDSOR, Ms Laurene, Senior Adviser, Integrated Tax Design Unit, Tax Design Division, Commonwealth Treasury**

**ELVEY, Mr Jim, Chief Executive Officer, Local Government Managers Australia**

**GASCOIGNE, Mrs Claudia Jane, Executive Officer, South Australian Local Government Grants Commission**

**GERMEIN, Mr Malcolm, Chairman, South Australian Local Government Grants Commission**

**HARRIS, Ms Jan, General Manager, Commonwealth State Relations Division, Commonwealth Treasury**

**JAY, Ms Di, Chief Executive Officer, Planning Institute of Australia**

**LESTER, Mr John, Chairman, Victoria Grants Commission**

**McLEAN, Mr Gregory John, Assistant National Secretary, Australian Services Union**

**MONTGOMERY, Councillor Mile, President, Australian Local Government Association**

**MORRISON, Mr Colin Andrew, Executive Officer, Victoria Grants Commission**

**MRDAK, Mr Mike, First Assistant Secretary, Territories and Local Government Division, Department of Transport and Regional Services**

**NEEVES, Mr Richard, Director, Economic and ITC Policy, Australian Local Government Association**

**NICHOLAS, Mr Malcolm Anthony, Acting Secretary, Commonwealth Grants Commission**

**PRITCHARD, Mr John A., Executive Director, Policy and Research, Australian Local Government Association**

**SIDES, Mr Hadley, Chief Executive Officer, City of Stonnington**

**SPOKES, Mr David, Chief Executive Officer, City of Port Phillip**

**STARR, Mr Trevor Milton, Immediate Past President, Local Government Managers Australia; Chief Executive Officer, City of West Torrens**

**WATTS, Mr Geof, Director, Economic Policy Section, Self-Governing Territories, Local Government and Natural Disaster Management Branch, Territories and Local Government Division, Department of Transport and Regional Services**

**WOOLLEY, Mr Peter, Manager, Local Government Funding Division, Queensland Local Government Grants Commission**

**WRIGHT, Mr Bruce Noel, Executive Officer, New South Wales Local Government Grants Commission**

**CHAIR**—I declare open today's hearing on local government and cost shifting and welcome participants and observers here today. I thank my colleagues for coming, after a reasonably late night last night. Today we will focus on the extent of cost shifting into local government and the best process of financing local government for the benefit of the community as a whole. We want some positive ideas and some practical ideas.

As this is our last public hearing, I would like to acknowledge the amount of work done by Mr Mike Mrdak and his officers from the Department of Transport and Regional Services. We have received six submissions, and I thank you for them. I would also like to thank everyone else for the amount of effort that they have put into assisting this inquiry—for their submissions and for so many coming here today.

This is a roundtable hearing and will involve the committee and all participants. We will ask questions of each group in the order listed in the program. I encourage everyone to participate in discussions as we progress through the morning. I advise everyone that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. To begin, the grants commissions would like to make a brief presentation before we proceed to questions.

**Mr Lester**—All the grants commissions have contributed to this paper and all endorse it. I am happy to say that five of the grants commissions are represented here today: the Northern

Territory, Queensland, New South Wales, Victoria and South Australia. I guess the hearts of the other two are here as well.

*A PowerPoint presentation was then given—*

To give you a brief overview of our presentation, we want to look at the role we play in the allocation process—and we have decades of experience amongst the teams in each state—and some of the concerns that we see in the At the Crossroads options. I make the point that, in our experience, the process of allocation is working reasonably well. The first point to make is that we are all representative of statutory authorities. We work in an apolitical way in our allocation process. I am sure that the members of the committee who have met with their grants commissions will appreciate that a non-political process is used in the allocation to each of our constituents. Given the amount of the funds, each of the commissions take its role very seriously indeed. Again, that would be seen in your contacts with the various commissions around Australia.

In looking at the allocation process, you are probably very familiar with the fact that we work within a framework that has been agreed to in terms of the national principles: five for general purpose grants and one for local roads grants. These have been agreed at the political level. They are, as it were, our terms of reference for developing our methodology. The most important of those general purpose grants principles is the horizontal equalisation, which we explain to our constituents in terms of relative needs, in looking at the needs of one municipality against another within our frame or state or territory. They are the bases on which we operate our methodology, and I am sure you are familiar with those.

In terms of the allocation process, it is well acknowledged that we all have slightly different methodologies—very many similar features, obviously based on the same principles, but we do reflect in our methodologies the differences that occur within our own area. Essentially what we are saying is that local government is not homogenous. There are certainly differences between states and within states. That is why we have adopted a slightly different version of the methodology for allocating our funds. I think you will see that the Commonwealth Grants Commission review of 2001 endorsed that action. I guess this simply reaffirms that point, and the conclusion of that review was that one size does not fit all. It is not the way we go about our task. Again, it endorses the experience that we have applied to this allocation process.

I guess it is also important to identify the fact that, in the way we go about our methodology, we have a means of recognising local characteristics in terms of either expenditure or revenue. These local characteristics allow us to distinguish the relative needs of one municipality against another. We have listed eight of the many local characteristics which we use to identify differences between one municipality and another. On the expenditure side, for example, in Victoria we have 13 of these means of measuring differences. In New South Wales it is something like 20. Each state has a different number but again they are all criteria by which you can ascertain the different relative needs of one municipality against another.

Consultation is also a part of our requirements. It is a very time-consuming task but one which all commissions take very seriously indeed. All commissions have visiting programs, all commissions have submission programs, so there are many ways by which we conduct the consultation process. Apart from individual cross-table meetings with councils, there will be

many occasions where regional meetings will be held by members of the commission. The process of visits and consultation is an ongoing matter which occurs regularly throughout the year. It puts a human face on the way we go about our task and allows us to listen to councils about the issue that they are addressing at any particular time.

We believe that the costs of our operation are about \$1.82 million, about 0.1 per cent of the total funds allocated. All these costs are borne by the state. Despite some comments to your committee, there is no skimming at the state level. All the funds allocated in the federal budget do in fact finish up in the hands of the local government.

**Ms BURKE**—You would say categorically, across the board, that all states do not skim?

**Mr Lester**—Absolutely.

**Ms BURKE**—That is enshrined and you all pay for your operational costs from somewhere else?

**Mr Lester**—Yes.

**Ms BURKE**—Of course, you have heard that we have had various reports from various states against that?

**Mr Lester**—I understand that.

**Mr Wright**—The act requires that there be a statement signed off by each state's auditor-general to the effect that the funds have been passed on to local councils.

**Mr Lester**—There are a couple of other points to make, too. Many of us are involved in extensive consultation processes, using professional consultants, when we make changes to our methodology. That expenditure is an additional cost which all the state governments bear. I know that in the case of Victoria we spent hundreds of thousands of dollars in reviewing our methodology, and I know that has happened in other states as well. That is an add-on expense. It also points out that the methodologies we use are dynamic; they are not static or set in concrete. They are modified from time to time to recognise changes that are occurring in local government. We think that is a very important issue, but also bear in mind that the states bear the cost of doing that. That briefly describes how we go about our task.

Our next slide is entitled 'Our concerns—a centralised approach'. I will pick up a few of the issues in the *At the crossroads* paper which give us some concern. The first issue is the centralised approach. I have already indicated that, first of all, we have variations in methodology from one state to another, which seems to recognise the differences that occur across state boundaries. Secondly, we find it difficult to imagine that one body can manage the consultation process with 722 local governments—visiting across the table and talking about their issues. They take half a day at a time. It is quite a lengthy, open process. We think that that would be an enormous challenge from a centralised area. Clearly, any change to a central process would shift the cost to the Commonwealth—I guess that is obvious—but I think it is also fair to say that not only the Commonwealth Grants Commission review in 2001 but also the



Selth report in 1985 endorsed having a local grants commission do the allocation process in the state. So that is the first issue that raised some matters for us.

The next slide is entitled 'Our concerns—a simplified system'. The second issue was the proposal in the paper to have a simplified process. In our experience, in reviewing our formula in Victoria in 2000, it was very clear from our constituents that they preferred fairness to simplicity. In all our discussions they understood that, if we were to produce fairness and equity, it would be complex but that would be much more acceptable than having unfairness and inequity with a simple formula. I think that is also borne out by one academic who made presentations here, Professor Farish, and it is certainly borne out in the UK experience, where they did a huge review of their local government finding in 1999. So it is very clear that, in order to be fair and equitable, there are some complexities.

The next slide is entitled 'Our concerns—tied grants'. The third issue which we focused on was the fact that for 25 years the FAGs had been untied, and that is very welcome at the local government end. Local governments have seen that as an endorsement of their local democracy—that they can be trusted to allocate those funds in the way that they choose for their community. We think that is still a very important issue and we would see it as a disadvantage to move back to tied grants. There is also the issue for those municipalities—and there are quite a few around Australia—who have a very high reliance on FAGs. In the order of 50 per cent of their revenue might come from FAGs. So if those grants were tied, it would be onerous for those municipalities in particular. If you think about the effort neutrality principle we follow, we should be less involved in their decision making rather than more involved in their decision making at the council level.

Our next slide is 'Our concerns—SES model'. We also have a concern, which I think was expressed to one or two members across the table, about the SES model. It might be appropriate for other means of allocating funds—where we understand it is used—but I think we can best refer to the quote from the DOTARS submission, suggesting that it is not the answer to solving the allocation problem. In any event, I think the SEIFA index, as you would be well aware, is simply a rankings index—that is, ranking the worst to the best, or the other way around—not a measure of relative needs. It is simply a measure of relative capacity, and not of relative capacity to pay. So we would be very concerned if the system moved to modelling it on the SEIFA index.

The next slide we have is 'Our concerns—road to recovery model'. Finally, I will comment on the Roads to Recovery program. That has clearly been a boon to all local government. There is no question about that. Everybody tells us that that has been a marvellous addition to their funding program. I think the committee needs to bear in mind that the formula that is now being used by the Commonwealth to allocate those funds is an old formula. All of us have changed our formulas. The Victorian formula has changed and the other states have modified their formulas. As I mentioned earlier, we use dynamic models for our methodology, and that needs to be borne in mind when looking at what is happening with the Roads to Recovery funding.

The next slide is entitled 'The way ahead'. In summary, we think the separation of the issues that this committee may well address, and I am sure is addressing, are funding levels, interstate distribution, minimum grants and badging—which we understand is an important issue for the Commonwealth government. They are the big issues, and we recognise that. We are in the minutiae of the allocating process, and we think that can be kept separate from the changes that

you may be looking at. We think we have developed processes over many years of working closely with local government in the allocation process. Finally, we have shown on our final overhead, entitled 'Local government comments', a number of endorsements from our constituents around Australia. That is the general paper we wish to present, and I have scampered through it as quickly as I could. It may be that others will want to add something to that.

**CHAIR**—Thank you very much, John. Would anyone else like to add something to that?

**Mr Germein**—Firstly, I would like to make an apology. We would like to table a submission. I got the process wrong, and I apologise for not sending this submission in earlier. We have a submission which we would like to table for your benefit. I will quickly run through that submission. There are four major points which we would like to make. There are three points which support very strongly the Victorian and New South Wales submission and there is one point where we have some difference with those two commissions. I do not think anybody will be particularly surprised with what that area is.

Our number one point is in relation to horizontal fiscal equalisation and why we strongly support the continuation of that as the base mechanism that is used for allocation of the FAGs. The effect of horizontal fiscal equalisation on distribution from the Commonwealth to the states is described in Budget Paper No. 3 of the budget papers that were brought down in the House of Representatives this year. I refer you to that paper. We believe, as the Commonwealth has believed for a very long time, that that is the appropriate way to allocate needs based programs on an equitable basis. We believe very strongly that HFE should continue as the basis of the allocation method for this pool of funds.

We also make comment about central distribution. We believe, as Victoria does, that if you perceive there are problems of a lack of understanding from councils out there now on the way it is currently done, those problems will be expanded tenfold if you try to allocate from a central organisation to 700-plus councils. If there is a misunderstanding of the process now, when state grants commissions are taking a lot of time explaining the process to councils, then that will be much worse if the opportunity to explain it to councils is not there and that opportunity is going to be very much restricted if it is allocated from one central organisation.

We also strongly support the retention of untied grants, particularly in the general purpose pool. I think as John said, in councils which rely heavily on these grants for a substantial amount of that income—and that is quite a substantial number of rural and regional councils—tying those grants will have a dramatic effect on their ability to reflect their local community's priorities. For that, and a number of other reasons, we believe it is very important to maintain untied grants, particularly for the general purpose pool.

We are not quite as strong about the roads pool. In South Australia, particularly, and I think in all of the other states, the roads element of the FAGs money is spent on roads. We believe that, if the roads element of the FAGs money was tied to roads, it would have very little effect on the overall outcome of the grant process. So we are not so enamoured with maintaining the roads section as untied, but certainly the general purpose section is the section that we very strongly believe should be maintained as untied.

The fourth area is the one where we differ from a number of the other states, and that relates to interstate allocations. I am sure you will not be surprised that South Australia has a different view to New South Wales, Victoria and some of the other states in terms of interstate allocations. In our submission there are four tables. In terms of the interstate allocations, we have tried to suggest three different ways that those allocations can be made and the results in terms of winners and losers of allocating in those three different ways.

I will quickly run through those tables. The first table allocates the total amount of the funds—that is, the general purpose pool and the roads pool—on a per capita basis. That is the way the general purpose pool is currently allocated. If the total pool including the roads was allocated on that basis, that is the first table.

The second table looks at the general purpose pool, and that takes up the suggestion that is in your discussion paper that we should look at the allocation according to the same criteria that the states are allocated their funds from the GST. The result of using the states' proportions of GST and transferring it to the general purpose pool for local government is represented by table 2. You will see the winners and losers in the last column of table 2. South Australia does not support the use of that particular proposal, because if you look at it you will see very clearly from the winners and losers that the priorities relate to the responsibilities of the state and how the Commonwealth Grants Commission perceives the states in terms of their capacity to raise money and their need to spend money. That relates to the situation of the states and does not relate to the situation of local government. As an example of what happens if you put that formula in—which, as you suggested in your submission, is an alternative—that is the result.

The third table relates to the roads element particularly. At the moment the formula for distribution is an historic one and nobody can explain how those relativities were arrived at. We have used a formula based on equal weighting of road length and population. Road length is obvious—that is the length of roads that councils maintain; population is, very simply, a representation of use. If that road element were allocated on that basis, you would see the winners and losers of that. On the back of that page is a combination of tables 2 and 3, where the results of tables 2 and 3 have been put together, and you will see the winners and losers there. The back page, table 4, is an allocation on needs; table 1 is a total allocation on per capita. There are different winners and losers each time you do that table.

We are suggesting it is time that the way it is done currently is reviewed—a substantial review of the way that allocation happens at the moment. There is no representation of need in the general purpose allocation and nobody can understand what the roads proportions represent. Certainly they do not represent road needs today; whether they did originally nobody really knows. We would like to see either you or the minister on your recommendation start a major review of the interstate allocations of this money. The Commonwealth Grants Commission did a similar exercise in 1991 and, as we understand it, they still have the information from that. We think it would be appropriate, given that the Commonwealth Grants Commission is a Commonwealth organisation and the pre-eminent organisation in the distribution on a needs basis, using HFE, for them to revisit the work they did in 1991 and to have a look at that and find out what an appropriate needs based formula would be, particularly for allocation of both the general purpose and the roads pool. That would give all of us then a basis on which we could make a decision.

This issue has been too hard for too long because of all sorts of perceptions out there about who are going to be winners and losers. It is time somebody did an exercise and suggested an equitable distribution process—and we are suggesting the Commonwealth Grants Commission do that. Then we can put some numbers around that so we can make a decision based on facts. We have been making decisions to do nothing based on perceptions up until now. It is time that changed. It seems to me that your committee has a unique opportunity to start that change process in a positive way.

If you look at those tables, the maximum amount of money out of the total pool to be reallocated to get to the needs based table—table 4—is \$75 million. The natural growth in the total of the pool is \$40 million annually. Even with that worst-case needs based scenario, which even South Australia does not support, it is not going to be an enormously difficult task to reallocate money to reflect a needs criteria, rather than the criteria that is reflected at the moment.

The other area we would like to address is how that money is distributed to the councils. We can understand the Commonwealth desiring a closer relationship between the Commonwealth and local government and we have some sympathy with that. We believe a model which allocates centrally to all of the 700-odd councils will not work, but a model which allocates through organisations which reside in the states—they do not have to be creatures of the state, they can be creatures of the Commonwealth government but can assist whoever allocates from the Commonwealth—can assist at a state level to allocate between the councils within a state. They can also maintain the relationships within the state and the discussions within the state so that councils can at least have the chance to talk to somebody locally about why it is that they get whatever level of grant they get.

So what we are suggesting is that the Commonwealth split the two pools and that the general purpose pool be allocated from the Commonwealth to a state level on a needs based principle, and then that state organisation—whatever it looks like—does the allocation down to the councils within that state boundary. And the same principle would apply with the roads element, but on a roads needs basis. We believe that would achieve the sorts of things that the Commonwealth is looking for—that is, a closer relationship with councils and a better tagging of the dollars as Commonwealth dollars than is currently the case—but will maintain a much better understanding by councils of what is happening on the way through. I think that is all we wanted to bring to your attention.

**CHAIR**—Thank you.

Resolved (on motion by **Ms Burke**):

That the submissions from the South Australian Local Government Grants Commission and the Victoria Grants Commission be received as evidence to the committee and authorised for publication.

**CHAIR**—Would anyone else like to talk about the grants formula?

**Mr Beadman**—I would like to make a couple of brief remarks. The first is, now that the question of interstate distribution has been raised, I would like to simply say that the Territory believes that the current methodology terribly disadvantages the Northern Territory for two

prime reasons. Firstly, the degree of need in the Territory is demonstrably greater than elsewhere. Secondly, the historical funding arrangements for local government mean that the Territory has joined the family about 100 years later than everybody else.

The other point I wanted to make had to do with the idea that somehow you can administer this pool of funds centrally by pointing out how different the Territory is to everywhere else in terms of: the percentage of land that is under inalienable Aboriginal land title and thus not rateable; the percentage of the population that is Aboriginal and terribly disadvantaged; the number of councils that are predominantly Aboriginal and remote; and the number of councils that are not formally members of the local government family in terms of incorporation but have simply been deemed for that purpose—and there are historical reasons for that too. So some idea that a centrally managed pool from Canberra can compare Perth to Papunya or Maningrida to Melbourne is fanciful, in our opinion, and requires further attention.

I suppose the point that has been made by John Lester—that the state and territory grants commissions come at no cost to the national pool of funds—ought to be borne at the front of your minds when you come to some conclusions about what ought to happen here. It is inconceivable to me that some centrally managed pool of people to manage funds nationally can surpass the sum total knowledge of the state and territory grants commissions.

**CHAIR**—Thank you. We might move on to questions. A Victorian council made an observation that, at the moment, each municipality plays the game of trying to maximise their grant at the expense of other councils—playing the same game in a scenario where none of them fully understand the rules of that game—and that this is a recipe for wasted effort and perennial frustration. What is your response to that?

**Mr Lester**—It is a total misunderstanding of the methodology. For those councils we visited with our new methodology—and there would be now about two-thirds at least who would have had face-to-face presentations—the manipulation is just not on. All the data we use is used on an average basis, except, of course, that which we use to cost adjust for local characteristics. I showed eight of them before. They are based on data from a recognised data source—for the most part, the Australian Bureau of Statistics. I know it was true historically that you could manipulate the data, but that is just nonsense today—certainly in Victoria and, in my understanding, across Australia too.

**ACTING CHAIR (Ms Burke)**—We might throw it open to everybody else so we can get a comment. Certainly one of the greatest complaints is lack of transparency about the process. Wherever we have been across the country, two councils sitting next to each other look the same and have the same sort of populace yet are getting two different amounts of grants. They say they just do not comprehend how the grants commission has arrived at the basis of the allocation of the grants and that there just is not transparency. We have had that from everywhere across the country. Do you think that holds true? If so, is there some way of ensuring that there is greater transparency in this process?

**Mr Lester**—There are two things I can add, and I am sure other chairs would like to add to that too. Thanks for the question. Certainly we have shown both the chair and deputy chair the sorts of presentations we do at local councils, with an attempt to show totally how we go about the process. It is certainly transparent from our point of view. We do admit that it is complex. I

think that goes back to the issue raised in the presentation. If we want to be fair then it has got to be complex.

We are able to show to our municipalities—and I am sure the others do—how we differentiate those local characteristics stats. You may recall we had those blue pie charts that showed the difference from one municipality to another. When you look at those and start explaining that municipality A and municipality B are different, it is certainly explainable and it is understood by those who are there. The issue we face in understanding is that there is really only one shot a year, and we are not uppermost in the minds of councillors throughout the year. They are dealing with a whole lot of local issues from time to time and not dealing with grants commissions. That has become an issue. Certainly at the senior officer level there will be one or two on the staff who are responsible for looking after the dealings in relation to the Grants Commission, and they will have a much better understanding of that. We recognise that.

**Mr Woolley**—It would be a fair comment to say that in Queensland, up until recently, a lot of councils did not understand the methodology. I think the Queensland commission would acknowledge that, in recent years, the knowledge of councils has decreased. Our commission—a new commission—was appointed 18 or 20 months ago. That commission has made quite a significant effort to get out amongst councils. It has reviewed its methodology, and it has conducted about 17 regional seminars around the state in three rounds at different points in time during the review. It developed a completely different way of explaining the methodology to what was done in the past. It attempts to express the principles in simple language or a set of questions that the grants commission has to ask itself. It also provides, for example, a simplified example using four mythical councils.

The short story is that the overwhelming response from councils and the feedback to the department as well as the minister is that councils now feel as though they can understand the basics of it. If you ask them a few months later, can they understand the details, they may have forgotten it, because it is complex, but the overwhelming response now is they can understand the principles that the commission has to work to and the rules they have to work within. They are also starting to understand that they cannot really influence the outcome, because it is just, as was said before, a set of data which is used. The commission has also published two fairly comprehensive reports with all its data. I think in Queensland the situation has changed. I think if you went now and asked Queensland councils, you might get a bit of a different answer.

**CHAIR**—There has been a suggestion in South Australia, for example, that councils do not actually get a full explanation about how the formula is worked out.

**Mr Germein**—Can I start at your first question regarding effort neutrality. There are five principles in the Commonwealth act that we have to apply and one of those is the principle of effort neutrality, which says the formula cannot take account of council policy decisions; it has to be independent of what councils do. We are constantly making that point to councils and I think the vast majority of councils understand that whatever they do internally within their councils will not have any effect on their level of grant. I can understand staff from councils wanting to be able to manipulate their grants to their advantage but, as John said, that cannot happen in the formulas we use now. It cannot happen because the principles in the Commonwealth act under which we operate say it cannot happen. Our formulas are specifically designed for that.

In South Australia, like other states, we explain as best we can the formula or methodology we use. It is complex, and we do only get to councils once every three years to explain it to them. It is a fact that HFE is used for distribution from the Commonwealth to the states, and state treasuries—each of them—have specialist officers to understand it. There is a level of complexity there that councils will never be able to understand. But the reasons for their level of grant are explained to them and the figures we use are shown to them. Our executive officer, in particular, is always available to any finance manager or CEO of a council to go through the calculations in detail so that they can better understand it—but there is a level of complexity. Particularly senior officers in councils have got an enormous number of other priorities on their minds. It is just not possible for them to spend the amount of time needed to fully understand the methodology we use, simply because of the pressures of their other responsibilities.

**CHAIR**—Don't you feel that might lead them to feel a little concerned as to whether or not they are getting a fair outcome?

**Mr Germein**—I am sure there is a level of concern. If they are that concerned, my executive officer will sit down for a full day with them and explain it so that they do understand. As John said, it is a matter of balancing the complexities of a fair model with equity. At the end of the day, if you get too simple a model, you do that at the cost of equity and fairness. That is certainly the result of the British study that was done recently.

**Mr Lester**—Can I add to that. In our experience of this, even though we may go to a council that may initially be hostile, we invariably leave with them expressing thanks for explaining what we do and stating that they understand the process we go through much better. After all our presentations to them, we invariably come back with a tick for the explanation even though we know it is complex.

**CHAIR**—We have got some CEOs here. Would any of them like to comment on this?

**Mr Starr**—I do not think anybody would argue about the state grants commissions applying the formula in a reasonable fashion. That is not the sense of the discussion that takes place with CEOs and senior people within local authorities. Whether the formulas of themselves are logical and fair and in the best interests of all the parties is, however, an argument they would seek to have and would seek to have influence on. For example, the formulas in South Australia revolve around population, and there are many councils in South Australia that would argue that they ought not revolve around population; they ought to be manipulated around properties rather than population. So it is the fundamental formulas with which they have an argument, not the grants commissions and whether they accurately interpret those formulas or not. It would be the contention of many of the councils in South Australia that those formulas need to be revised. They need to be revised impartially and they need to be revised on the basis of what is developed and what is a reasonable and appropriate outcome.

**Mr Spokes**—I can only comment on the Victorian experience and as the CEO of a Victorian council, but we are very comfortable with the methodology that is currently employed by the Victoria Grants Commission. We are certainly satisfied that it is transparent and understood by our councils. We can always have some arguments about the final result but, in essence, we do not see that as being the issue.

**Prof. Daly**—There are a number of reasons why councils come away with this feeling that they do not quite understand some of the things. One of the main reasons is that we are dealing with relative needs—in New South Wales across 172 councils. Quite rightly, councils focus on their needs. Until they have looked at the whole spread of 20-odd factors with maybe five, six or seven variables related to those factors, it is not really easy for them to understand the relativities that we are dealing with. I think that is a problem; they do not understand that notion.

As well as that, grants happen once a year; everything else in councils happens every day. So it is not something that is at the forefront of their considerations. The grants come around, they put in a submission towards the end of the year and that is it. Very few elected members would have anything to do with putting in those submissions; it is done by a technical officer within the council.

The other problem is that it is quite transparent. It is in the annual report and in literature we give the councils. They do not always go to the bother of having a look at it. I noticed in the transcript of the Newcastle meetings that a general manager said that she did not understand the formula. That was interesting because when we visited her council she had lunch with us and then left and did not bother staying to hear our explanation of the formulas. Part of the reason is that they do not put a lot of effort into understanding the grants because they do not meet them everyday. It is not something that impinges on them all the time.

**Mr NAIRN**—Professor Daly, your submission is fairly similar to the other grants commissions' submissions. You have more or less said, 'Don't change anything.' There is nothing in those, other than in South Australia's regarding the roads et cetera. Basically you are saying that the current system is fine and that the various suggestions—and it has to be emphasised that the *At the crossroads* report was just throwing out some ideas and was not necessarily what the committee thinks at this stage we should or should not do—are no good and everything should stay the same. We have a situation, such as in New South Wales, where, say, somebody living in Hunters Hill is paying \$700 or \$800 in rates but, in another area of Sydney or New South Wales which is nowhere near as affluent, the rates on a property of the same size could be two or three times that figure. There is something wrong in the whole system of money that councils have and where they get their money from. Don't you think there is a role for the grants commissions to say, 'Is there a better way overall?' or are you keeping a really narrow focus and saying, 'This is the money that we get, so this is what we'll do and let's ignore everything else.'

**Prof. Daly**—There are two things there. The reason each of the grants commissions provide a somewhat similar response, I would suggest, is that under the act we are meant to calculate these grants according to the principles laid down by the Commonwealth government. We are not in the business of arguing with the principles, so if the Commonwealth changed the principles we would change the system under which we work. The reason they are similar, also, is that they work pretty well. The relativities across the state are pretty well where they should be, we believe, in terms of their outcomes, and that is the end test.

With respect to the point you make about Hunters Hill, it is the council with the highest rates in New South Wales. It has just overtaken the council in the area I live in. I have lived with the highest rates for quite a while. But I guess you are really asking about things like rate pegging and so forth, in that context. The rate pegging issue is a big one in New South Wales. However,



keeping rate pegging alive and where it is has bipartisan support in the parliament. A lot of people think it is a pretty strange system, and no other states have it, but the fact is that, politically, no-one seems to want to remove it. The other point I would make is that rates, as a percentage of total income of councils, vary a great deal across the 172 councils in our state. The amount of money some councils would get through what they call 'other charges' and so forth would be greater than the amount that some councils raise in rates. The income side of it has changed a lot. The importance of rates varies a great deal across the state.

**Mr NAIRN**—You say, 'Well, that is the formula that we are given; that is the act and that is what we have to work with,' but is there something wrong with the Commonwealth principles, if you are getting these sorts of scenarios?

**Mr Beadman**—To date, this discussion about the level of knowledge amongst councils has centred within jurisdictions. I want to make the point that presidents and mayors in the Territory tend to speed over a comparison with one another and then leap to reports of other grants commissions to find out what similar sized towns have got in other jurisdictions. Invariably, the Territory comparison comes out terribly disadvantaged. Blame then tends to get levelled at the Northern Territory Grants Commission, which of course it has got nothing to do with, the origin of the problem being with the interstate distribution in the first place and the answer lying in the relative need of the council in that jurisdictional context and not in comparison to any other similar sized place across borders. So we get unfairly blamed for the interstate distribution really, and there does not seem to be much of a problem in relation to the equity within the Northern Territory.

**Mr Woolley**—In response to the situation where you observed one council having rates of \$700 and another council having rates of \$2,000 or whatever, on the surface it may appear that there is some inequity there, if one council has to charge three times as much as the other one. In those situations, you have to look at the reasons for that, and it becomes complex. In Queensland, for argument's sake, I could find councils that might only charge \$200 a year for their water and sewerage, but their water and sewerage assets are perhaps dilapidated, they have not been charging for recovery of depreciation and they are facing a real drama because they have chosen not to fund enough. Other councils will have higher rates by choice, because they want to fund a higher level of service. In terms of the role of the financial assistance grant, as it stands at the moment, the commissions are charged with assessing how much a council needs if it spends at average and how much it would raise if it taxed at average. That takes no account of infrastructure backlog or the particular circumstances of a council. A commission does not go around and say, 'There are 1,000 potholes that will cost \$1 million and we'll give you \$1 million.' So there is an interaction there, and you would hope, if the horizontal fiscal equalisation was working reasonably well, that the councils that did not have the capacity to raise the money to provide an average level of services would then have that. But, when you boil it down to individual circumstances, I do not think you can just say that this council has \$600 in rates and this one has \$2,000. I think it is more complex and you have to look for the reasons behind that. If you do want to have a situation where you have rate equalisation then, yes, you will need something very different.

**Mr Germein**—Can I make two points. First, in relation to Trevor Starr's comment, in South Australia we did a major review of our methodology six years ago. We did that in conjunction with local government and with an enormous amount of consultation with local government.

When we finished that review we had the very clear impression that local government generally was happy with that new methodology. It so happens that the new methodology meant there had been winner and loser councils. You do not have to be very clever to understand which councils are now saying, 'We do not like the methodology.' I think that has something to do with the attitude of a few councils in South Australia.

Second, you were saying that it appears that there are council areas where the property values are high and the councils there raise \$600 per property and there are council areas where the property values are low and the councils there also raise \$600 per property and you were asking whether that was equitable. I think that is the sort of question you were asking. Our response to that is: if you look at that, the council with low-value properties has to be charging a much higher rate in the dollar to raise that \$600 than the council with high-value properties. That to us says that the council with low-value properties is taxing its ratepayers at a much higher level than the council with high-value properties, and the model that we introduced is trying to rectify that. There is not enough money in the system to fully rectify it, and that is why HFE cannot be fully instituted in local government, because there is simply not enough money there.

**ACTING CHAIR**—Professor Daly, did you want to make any comment with respect to the Commonwealth grants principles? You said at the start that you are governed by those principles. I will throw it open to everybody around the table at this point: is there something fundamentally wrong with the national principles that are guiding your entire system. If the answer is no, that is fine; I do not want to put you on the spot.

**Prof. Daly**—The problem is that the principles are set around trying to get equity across the system, but there is always lurking in the background the notion of efficiency and whether or not councils are being rewarded in some way because they have not managed very well and are inefficient. I think, if there were to be a change in the system, it would have to take into account the notion that equity and efficiency are very strange bedfellows. Philosophically they are in different camps. But, in relation to the councils that do have a lot of money, that do have a lot of resources, that do have a lot of capacity to go their own way, if that could be looked at and considered that would be a big step forward. I have some worries that maybe we are not doing either equity or efficiency quite right.

**Mr Beadman**—The point has been made endlessly that there are some fundamental complications or contradictions in the interstate funding methodology. The principles are about horizontal fiscal equalisation. But you do not get that by a per capita split, you do not get that by requiring a minimum grant for councils within jurisdictions and you do not get that by having some centralised approach to the distribution of funds. We were going to sit back and watch what happened with this cost-shifting inquiry because we felt that the Commonwealth had opened itself up. If there is any cost shifting taking place, it is by Centrelink requiring remote councils to run an agency service for Centrelink rather than through state departments expecting remote councils to take on work. We felt that it was perhaps a little bit self-serving for the Northern Territory Grants Commission to get in and argue for its own retention. But, when somehow this discussion paper moved off cost shifting and into this broader issue that is the centre point of the discussion here this morning, we felt that we ought to be represented here.

But with the way the act requires the funds be cut between jurisdictions—and then the added requirement that there be a minimum grant for each council in a jurisdiction—you cannot get

equalisation and fairness. So it is self-contradictory in those terms. We tend to think that the idea of equalisation ought to be what guides everybody and that, if it is good enough to attach as a condition of grant to the states FAGs, it ought to be good enough to apply to the front end of the process.

**Mr Starr**—Any methodology that has a correlation between the capital values of properties and the capacities of councils to raise revenue, particularly from their residential populations, is fallacious, I think. It ignores many of the sections of communities that do not have access to income. They may be asset rich in one sense but in another sense their flow of income is quite restricted, either as self-funded retirees or as pensioners. I think there is a fundamental flaw there. If we are talking about equity, we ought to be talking about people's capacity to pay, about their capacity to consume and about what the local authorities owe them in terms of provision of service—and I do not believe that can revolve around pure populations. Some of the councils have quite high populations by virtue of their history, but they have quite good earning capacity and they might have two or three wage earners within a particular home. However, in some of the other areas that is not the case. You will always get winners and losers and most of the councils in South Australia really do not care whether they are winners or losers; they are concerned about the methodology and whether it is reasonable and responsible.

**Dr SOUTHCOTT**—As Australia has an ageing population, you see differences within the states and between the different councils in the proportion of people they have over 65. Do you look, in the distribution of councils within the state, at things like median income or capacity to pay?

**Mr Lester**—In terms of the ageing population, that is certainly an element in our formula. Looking at aged pensioners is one of the local characteristics which I referred to earlier. The second thing is that we do use the SEIFA index in part of the expenditure side of the formula. So again it is represented in that way, and that was in some of the presentations we made to councils. Thirdly, we have been wrestling with this issue of capacity to pay for some time and we have put in place some temporary arrangements for that in terms of the valuation aspect of the revenue side—by capping it—and we have initiated a major review, using external consultants, on the revenue side of the formula for the next financial year. So it is a matter which we are concerned about, but we recognise that there is no simple solution to that. We have had a couple of goes at it and this will be our third major attempt to look at that capacity to pay issue. Councils talk about that and, as I say, we have got in place a temporary measure to handle it.

**Dr SOUTHCOTT**—In terms of the formula you have within each state, you mentioned the role of the visits to councils: how much discretion is there then for the local state grants commission to vary their formula or take into account what they found on their visit?

**Mr Lester**—I am sure each of us could give a response to that, Dr Southcott, but let me talk for Victoria. In the processing, we have an annual submission possibility. We have discussions with councils and each of those produces proposals for change to the formula. So, if we do make changes, we are very anxious to make them applicable across our jurisdiction and we do not like making changes to the formula which advantage or disadvantage only one municipality. In any modification—and there are always modifications every year—we say to our councils, 'The formula is not in concrete; it is modified, but it is based on things we can take into account across the board and not just for one municipality.' And we are looking at new issues at the

moment. We have on the table now a proposal to include environmental issues but, so that we can get what I call 'data' across the state, we will incorporate that. The sort of data that we need is unavailable to us. Those are the sorts of issues that hold us back.

**Mr Woolley**—If I could respond very quickly to Dr Southcott's question, in terms of assessing the capacity of a community to pay taxes or rates, I personally think that is the most vexatious question a grants commission has to answer, and our grants commission has mulled over that one for many years. Our previous grants commission for many years used an assessment which included such things as the personal income of residents and the value of retail sales, to get an idea of the level of commercial activity, because it is not just residential ratepayers: you have commercial use, industrial use, rural use et cetera, the value of rural production and other things.

The ABS does not produce that information at the local government level anymore. You can get personal income information, but you cannot get information about retail sales. You can get the value of rural production in a census but not between censuses. So our commission is still struggling with that. It has at this stage with its new methodology used valuation, but it has some reference back to its old methodology and is struggling very hard to work out how to assess that capacity. In assessing the capacity to pay, it takes some account of differences in family income but, simply because of the lack of data, I personally think it is the hardest and most vexatious question the grants commission has had to answer.

**Mr Beadman**—Again, the Territory is distinguished from the states, as I mentioned earlier, by the Aboriginal land rights issue and the rateability of land under that regime. As a consequence, the Territory methodology has had to turn to ABS income data in order to establish a revenue raising capacity on a council basis. So our methodology is not rooted in a rating capacity whatsoever but rather in ABS published data on personal income for the Territory and the share of that income that a council might have on a population basis. So it would please Dr Southcott, I imagine, that our methodology is a direct consequence of capacity to pay.

**Mrs Gascoigne**—We also have long debated the issue of capacity to pay and capacity to raise. The Commonwealth legislation refers to the capacity of the council to raise revenue, not the capacity of the community to pay. So our methodology is based on what councils actually do. In South Australia the majority of councils use capital valuations, so our methodology reflects those capital valuations. But it is true to say that we have concerns over the capacity to pay of residents within the councils, so we have been doing some work over the last 12 months looking at a whole range of indicators which relate to the third and fourth SEIFA index and also household incomes, from census and taxation data. So we are grappling with those issues as well.

The other part of your question, Dr Southcott, related to the ageing population. I think all of us would also take into account the population profile on the expenditure side of the calculation. We take that into account. We are grappling with the issue on the expenditure side as well as on the revenue side.

**Ms GAMBARO**—Earlier when you gave the presentation you said that the SES model does not take into account the capacity of councils to provide service. We had Professor Farish come and talk to us and he disagreed with that. He said that there could be a variation in the delivery

of services and that it could be factored into the model. Why are you so fixated on not looking at this model? We have heard from the Northern Territory about the income levels there. Surely there is a model that could be adapted, that could factor in those factors that come into play and that we could possibly use. What are your thoughts on that?

**Mr Lester**—Is the question that we take account of income capacity?

**Ms GAMBARO**—Yes, more on income and, particularly in terms of whether the data is more skewed towards rural communities—I would not mind your thoughts on that.

**Mr Lester**—I do not know that we are averse to using income capacity. The SEIFA index is perhaps the most obvious one to use. I think I mentioned earlier that we do use that in our formula in a couple of ways. Restating the point, in Victoria we have recognised that capacity to pay is becoming an issue in local government. We will again in the coming 12 months be reviewing how best we can manage that. In a sense, it also raises the issue of what rates are all about. Are they a tax on property or are they an income tax? That is a much broader issue. I do not particularly want to open that debate at this present time. The simple answer to your question is: yes, we have recognised the issue and we already take account of SEIFA in a number of ways in the formula, but not overall and not on the revenue side, which I guess is the issue, and we will be readdressing that in the next 12 months.

**Ms GAMBARO**—Does anyone else want to comment?

**Mr Delahaunty**—I would like to speak in my capacity as CEO of the City of Stirling in Western Australia. I would just make the observation that for the larger metropolitan areas, which are the major populated areas and are where the services are being supplied in variation, that income from grants commission grants—through general purpose grants—is a very small part of total income. I would suggest that a very large number of councils now on minimum grants really might find, when they look at the end value and what it means in the total picture of income for that local government, that going through the submissions and the requirements to comply that they need to go through to gain that grant is really too much of a chore. In those areas, there are more important issues and other alternative avenues of funding that we might place greater emphasis on.

**Ms BURKE**—Having raised that—and I would again throw it open to the table for comments—why then is everybody so passionate about keeping minimum grants? I hate to tell you, but half your arguments today, ladies and gentlemen, have actually said we should kill minimum grants, so why is everybody so passionate about keeping them?

**Mr Germein**—The South Australian commission's view is that that is a political issue between local government and the Commonwealth. If local government as a body decide they do not want minimum per capita grants, from a grants commission's point of view, we will do that, but our grants commission does not want to be involved in this.

**Ms BURKE**—Can I ask ALGA for a comment on this one? You are being very quiet down the end of the table.

**Councillor Montgomery**—Local government is entitled to a share of public taxation, and every local government is entitled to that share.

**Ms BURKE**—Does anybody else care to comment on grants.

**Mr Woolley**—I will not comment on whether there should or should not be, in a policy sense, because I am here representing the grants commission. Our grants commission takes a view that a minimum grant is justified because, as hard as a grants commission might try, it is not 100 per cent pure science, because of lack of data and imperfections in data. You cannot get up and say that you can test this and it is the be all and end all. There is no one right answer; there are variations on a theme. So our grants commission has the view that a minimum—whatever level the minimum might be—is warranted, simply as a safety net. The tax sharing argument is another argument, but our commission would say it is justified as a safety net, if for no other reason.

**Prof. Daly**—Part of the problem is that we try to deal with metropolitan councils and other councils in the one system. Australia is one of the few countries in the world where we mesh the two together in our local government acts and in systems like our grant systems. We are not really comparing apples with apples, as it were. In Sydney, half the councils—22 councils—are on the minimum, and that grows year by year. Trying to compare some of the places you mentioned—Hunters Hill, Mosman, Woollahra, the City of Sydney or any of those places—with Bourke, Brewarrina or Central Darling is kind of stupid, I think. Part of the problem is that we put the two together, and that is where, in the distribution of the grants, this minimum grant problem comes out.

**Mr Lester**—Another dimension to that is that in Victoria the minimum grant councils are six or seven, they represent about three per cent of our general purpose grant, so it is a very small percentage of total funds. I also want to explain something else. I obviously misunderstood Ms Gambaro's question about the Farish proposal—sorry about that. Let me explain: we have been looking at formulae for decades in local government. We have had lots of experience in reviewing formulae and developing formulae. We would never say that you cannot develop a new formula. What we do say is that it has to recognise relative needs. One based on SES measures capacity to pay but not relative needs of the services that councils provide. It will take considerable time and effort to develop a formula, using that as the base, to take into account all the relative needs factors and to get data which is valid statistically to incorporate in that. We would see that the process of developing a formula—I am not saying it is not theoretically possible—is a very complex and painstaking issue.

**Mr Starr**—I fully accept what the ALGA is saying about entitlement of councils to some form of taxation that is collected by the Commonwealth. However, the problem with minimum grants as I see it is that they assist in propping up, if I can put it that way, some administrations and some councils that might be on the brink of considering more fundamental structural change—either amalgamations or regional change. That is a serious issue where we have minimum grants and people get to rely on that amount of money, and you have an inherent inefficiency in the system.

**CHAIR**—We might move to the question of cost shifting, since you wanted to get this inquiry back onto that question. We wrote to all the grants commissions to get an estimate of cost shifting in each state. Have you got anything to report to us?

**Mr Lester**—Do I start the batting again for Victoria? I seem to be in the hot seat too often. We have responded to your request in two ways. We collect a lot of data from councils about their expenditure, but we do not ask them why their expenditure has gone up or down. That is their choice under the effort neutrality principle. We do not collect data to say why they have spent more on libraries or why they have spent more on roads—whether it is because the funding from other sources declined or whether it is because the councils want to allocate more of their funds to these activities, whatever they may be. We do not collect data on the basis of cost shifting because we do not have information about why their expenditures have changed. What we have said though is that, if the committee wishes to undertake a research project on cost shifting, we are happy to provide our database for you to use as a source of data—I am sure that would apply to all the other commissions. It is open for that because the information we have is common knowledge, and that would be available if they want to do a research project on that issue.

**CHAIR**—But do you still have a feel for what the extent of it is and where it is most apparent?

**Mr Germein**—One of the difficulties in South Australia is that, when we look at the expenditure information we have for councils, we find that the expenditure on garbage is increasing at a faster rate than normal inflation. So you sit down and ask why that is. As John said, we actually do not have that information, but we have asked councils why their garbage expenses are increasing at such a high rate. And the answer is invariably recycling. The cost of recycling is much more expensive than just disposing of the garbage in landfill or whatever. Is that a cost shifting exercise from the state? Is that a response to a community demand? The definition of cost shifting is one of the areas where we have some difficulty.

We are more than happy, as John said, to provide information about the functional areas where local governments are having larger than expected expenditure increases. But unless we go back to the councils, we are not able to identify why those larger than expected expenditure increases are happening. We are happy to do that, but it is going to take some time and I am not sure that we would have the answer to that in the timeline that you have available. We have not responded because that was a question we were going to ask today: is it worth it for us to do that level of work to provide you with that information? It would probably take a couple of months. Given the timeline that you have, and I do not know what that is, we might not have the information in time for you to be able to use it.

**Prof. Daly**—I would like to apologise for not replying to your letter. The main reason was that it went to a number of offices before it actually got to me. We do intend to reply. In New South Wales, there are only two areas which you can definitely say could be seen to be cost shifting at a state level. One is the money that goes from the state government to councils for libraries, which has diminished over the years, so councils have to pick that up, and the other one is the fire service levy. All the other things that people might or might not call cost shifting really reflect changing policy areas that end up with councils having different responsibilities in relationship to certain things over time. The problem with trying to put a figure on it is that councils are autonomous units under the Local Government Act 1993 in New South Wales. They

do or they do not do things that the state asks them and there are a lot of things they simply do not do.

It is pretty hard to disentangle a reflection of a general policy shift that encompasses councils, the state government and the federal government together—and environmental management is a good example of that—from a direct impact by the state on to the councils or from a reflection of the individual councils' decisions to do or not to do various things. It is a pretty complex sort of thing to untangle, but again we get a lot of information from councils about how much they spend. As John said, if it was helpful to the committee for someone to examine that data over time, you would see shifts in the costs but it is much more complicated than simply words going out from Macquarie Street, 'Do this at your cost.'

**Mr Beadman**—I want to paint a picture for the committee that makes the case that the most remote council in Australia has to take on the widest range of government type responsibilities. It comes about ironically through the best intentions of governments going back 70 to 80 years of reserving land for Aboriginal people and then requiring a permit system for entry to the land. The original idea was to create a buffer for people from the encroachment of the worst elements of the wider society. The inadvertent effect has been to create a buffer from the migration of people, businesses, government agencies and general population build-up with the result that the most remote council has to take on all of those functions that government agencies and their myriad kinds deliver in major townships as a matter of course. There is also a range of ancillary services—whether or not they are in the Northern Territory—such as an Air North agency, a post office agency, an aged care agency and certainly a Centrelink agency, and I mention that as a very strong cost shifting issue.

So the outcome for the most remote council is a far and away greater range of functions than the Darwin City Council. If you like, each one of them represents a cost shifting by whichever arm of government, because that arm of government is not represented by that functional agency in that location. Any examination of the effect of cost shifting onto local government in Australia should begin by looking at the effects on the most remote councils and then working towards metropolitan councils.

**Mr Sides**—Quite a few of the councils submitting to this inquiry in Victoria prepared fairly detailed estimates of cost shifting in Victoria, as did the Municipal Association of Victoria. I have had a look at three submissions, from Stonnington, Booroondara and Maroona. Those three councils represent about 350,000 people and about six per cent of Victoria. So it is a pretty good sample. The interesting thing is that they all used different methodologies but it is possible, I believe, when you look at it, to come up with a reasonably indicative figure of what the cost shifting is.

One issue with cost shifting is definitional but I think the main issue is whether it is cost shifting in the last year or in the last 10 years. It would be easy for someone to say that cost shifting is \$1 billion, but the question is: did that happen in one year or 20 years? That is the issue. The figure you need is what it is per capita per annum. In Victoria, the figure that I think you get if you go through those three councils in the MAV is \$10. That means that in Victoria cost shifting is occurring at the rate of about \$50 million a year. It has probably been going at that rate for five years, judging from those submissions. What it was before that, I do not know. There is absolutely no doubt that the prime perpetrator and beneficiary is the state but there is



some Commonwealth in there as well, largely because of our involvement in Victoria in Home and Community Care, which is a role you are involved in. Whether it is cost shifting or revenue shifting is the interesting thing. But it is a form of cost shifting, effectively.

I do not know what the national figure would be because there are so many differences. I think that is the point the grants commissions have well made today: there are so many differences between the states. If that was true, it would be running at a figure of probably \$200 million a year in Australia. Of course, you have water and sewerage in some councils, which we do not have in Victoria, and they do not have community care. I would be pretty confident, based on the four studies I have looked at, which have all come up within roughly that figure give or take about 10 per cent, that \$10 per head per annum is a pretty accurate figure.

**Mr Delahaunty**—I would like to make some comments generically on some observations that we have had with cost shifting, probably picking up some of the examples that were mentioned earlier. There is an expectation from the community in the raising of standards, which is having an effect. Also, it is felt that local government can assist with the raising of standards. I think our states are also recognising that local government is an opportunity to raise revenue to meet some of those demands.

Classic examples would include waste management—as we have mentioned—which is going, for environmental reasons, from landfill into secondary waste, which is a complete change in the level of service involved. That is the reason why there are escalating costs in those areas. Another example is law and order, which is primarily the responsibility of the states. Local governments are being forced into expenditure in that area because of the expectations of their communities that say, ‘We are dissatisfied that the police service is unable to meet our requirements, particularly where there is domestic or low-level crime,’ and therefore, they are seeking local governments to fill that void. Those are the prime areas that we established. I would say that the expectations of the community for higher standards of service are a particular concern.

**Mr COX**—Could you tell us how you could have avoided being a crime prevention area?

**Mr Delahaunty**—Yes, certainly. For example, there are a number of local governments now that raise a levy from their community to fund a security surveillance system that employs staff and trains them to virtually patrol the local government area on a regular basis, protecting the home environment while the normal income earners are away during the day or people are away on holidays. They become the eyes and ears of the police, and they are able to report antisocial behaviour and problems being experienced in the normal domestic environment, because the resources are not there for police in this day and age to be doing that same job that we expected of them years ago.

**ACTING CHAIR**—We have Mark Burgess from the Police Federation of Australia here. Is there anything you would like to comment on at this time?

**Mr Burgess**—One thing I would like to say is that I will actually be looking at my rates notices in a lot different light in the future after the interesting discussion this morning. It was all foreign to me, of course. Our arguments are in a number of areas. We put a submission in initially because of comments that were made by Wilson Tuckey in respect of pushing policing

issues back to local government. He actually suggested that local governments would in fact employ police officers. We oppose that for a whole range of reasons which are evident in our submission.

In respect of the whole notion of cost shifting—whether you want to call it cost shifting or not—we argue that there are a whole range of issues in respect of policing that are being forced through Commonwealth policies onto state and territory governments and, therefore, down to local governments as well. We elaborate on a number of those within our submission. If you want me to go through all that, or rehash all that, here at the roundtable, I am quite happy to go through that process.

There is another issue here as well. We talked about police resources. There is nowhere that I know of around Australia where anyone has actually ever been able to establish a proper police resource allocation formula to determine exactly how many police we need—not at any state or territory level or even down to the local level. There has been some work done on that in some of our jurisdictions. In Victoria, there has been some work done on that, and in South Australia there is currently a select committee inquiry into policing and police resources. The same applies in the Northern Territory; there is a government inquiry into that at the moment. It is a concern right across Australia that there is no specific formula that determines how many police we need. Currently in Australia there are in the vicinity of 45,000 police. That number has been steadily growing in most jurisdictions, albeit government policy from time to time—and Victoria over the last several years is a great example—has been to actually cut police resources. The public outcry about that was perhaps as a result of the change of government in that state. There is a whole range of issues that we would be happy to talk about in respect of those particular things.

In the last couple of months, the Centre for Independent Studies produced a document called *The Thinning Blue Line*. We only became aware of it once it was publicly released, but that document tracked policing from 1964 through to the present. The authors made the observation that there could be an argument to employ 100,000 extra police across Australia. You can imagine the impact that would have on state and territory budgets. That body carried that study out independently. They looked at crime rates, population rates et cetera and came to the conclusion that Australia is 100,000 police light on. We argue that, perhaps emanating out of some body such as this, we really need to work nationally on a proper policing resource allocation formula that, I am sure, would assist your constituent bodies right around Australia.

**ACTING CHAIR**—Do you believe there is a role for local government in policing?

**Mr Burgess**—We do not believe there is a role as an employer of police, and we have been pretty clear about that for a whole range of reasons, not the least of which being that constitutionally it is going to cause a whole range of problems. But for policing, professional standards would cause the greater problems. We are talking in Australia at the moment about the professionalisation of policing. We are talking about the development of interjurisdictional mobility, where police officers can move around Australia at rank et cetera. Those things are not really available in this country at the moment. We think that if you actually increase the number of police employers—from the current number of states and territories and the Commonwealth to 700-odd councils across Australia, which I think is what you said—you would almost be going to a United States system of policing, which I think everyone around this table would say would be a really retrograde step for Australians.

**Mr NAIRN**—What does your association think of what Mr Delahaunty commented on, about employing security people to do certain tasks? What is the police's view of that? It is becoming more widespread.

**Mr Burgess**—It is, and we have some grave concerns. In all fairness to Wilson Tuckey, he was saying initially in his public comments that he would rather see local governments employing police officers as opposed to private security officers. That is basically the debate we had with him in the early stages. That is available in some jurisdictions. For example, New South Wales currently has a system whereby local governments, local shopping centres et cetera are employing police officers on a user pays basis, as opposed to employing private security. A similar situation arises in Queensland in a number of areas.

We have also suggested in our paper that there needs to be some proper research done about the proliferation of private policing in Australia, about whether that should be instead of public policing. We would argue that it should not be, because at the end of the day, if we move to a model of a greater proliferation of private policing as opposed to public policing, those people who will suffer the most in our community will obviously be those people who cannot afford their own policing service. That should be of grave concern to all of us, in particular to councils. We think there needs to be a lot more research done into this. An actual resource allocation formula to determine how many police we actually need in Australia would be a positive start.

#### **Proceedings suspended from 10.42 a.m. to 11.03 a.m.**

**CHAIR**—Following up on the issue of cost shifting, the committee would be very interested to get a bit more detail on that estimate.

**Mr Sides**—The big issue, as I said, in calculating the cost shifting is working out in what period of time it occurred. A lot of people can calculate a number, but the question is whether it occurred over the last 10 years or in the last year. The three councils had a figure of around \$10, which is really very little spread when you look at the number of years. The analyses were from as short as one year and out to five years in one case. The figure of \$50 million for Victoria is very close to that submitted by the Municipal Association of Victoria, which was \$40 million plus maybe \$20 million, I think they said. We factored ours down a bit, to be conservative, so I think it is of that order.

The interesting thing though, the telling measure, if you look at that \$50 million, is that it is a lot of money but what does it really mean? It is the equivalent of between about 1.6 and 1.7 per cent of total revenue for local government in a year. That is the dimension of the impact we are talking about. There is another problem as well and that is the present arrangement where money is distributed on a per capita CPI basis. It is not calculated as cost shifting in this but it is equally important. The real cost of local government is rising no different from the real cost of state or Commonwealth government. If you add that in as well, there is probably another two to 2½ per cent shift. So, in local government—in Victoria at least—there is about a four per cent shift per annum just through cost shifting and the way in which the escalator is applied.

One of the big issues for this inquiry is not only the quantum of FAGs or the distribution method—by and large, the CEOs group that we represent in our submission are not unhappy with the distribution system—but the escalator as well. A lot of people talked about the need for

a share of a growth tax. I think that is right because, if you have a look at some of the work we have had done by Access Economics, it shows that by 1984 real per capita taxation collections for the Commonwealth have grown by 74 per cent; payments to the states, in real terms, have grown by 21 per cent; but payments to local government have grown by five per cent. Because we are on the per capita CPI, there has been very little real increase. That is another aspect of this which you have to then add in.

In fact, the escalator is important, if we are somehow tied to taxation collection. How you do it I do not know; it is not an area I am particularly expert in and David may have more comments, but that is probably one of the first things to do, so that the problem does not get any worse. The problem of what quantum we should get in FAGs is problematic because you have got agreements, you have got states and the Commonwealth and I can see that that is an issue of some complication. We have got a few suggestions about that but the escalator, I think, is the other issue that needs to be looked at in the inquiry and addressed so that the problem does not get any worse—I think that is probably an easier matter.

**CHAIR**—Mr Spokes, do you want to add something?

**Mr Spokes**—Mr Sides referred to some work we had done by Access Economics to assist us in putting this material together. I have a copy of it here and I could table that for the committee, if you wish.

**CHAIR**—Yes, we could have that received as evidence and authorised for publication.

**Mr Spokes**—I would like to take a little bit of time in running through some of the conclusions. In effect, what they did was review quite an amount of material that had been presented to the inquiry, plus some of their own investigations as well. There are a couple of key points I would emphasise. They basically said in conclusion that—and I quote:

There are strong grounds, both theoretical and practical, for increased FAGs to play a major role in addressing the worsening VFI—

vertical fiscal imbalance—

evident between the Commonwealth and the lower tiers of government in Australia.

Fundamentally, mismatches between taxation collected centrally at the Commonwealth level and the Commonwealth's own spending responsibilities require the Commonwealth to distribute these surplus revenues it collects back to those levels of government with deficient revenue sources (State and Local) in the form of revenue sharing grants.

That is the obvious justification for FAGs. They then go on to make the point that:

This case perhaps has been strengthened as a result of the recent changes in Commonwealth-state financial relations as a result of GST.

I will come back to that in a moment. They then suggest some alternatives to increasing FAGs. The first one would be that the local sector cuts back its expenditure on unfunded mandates

imposed by higher levels of government, and a number of people this morning have raised that issue.

A second option would be the—

Commonwealth in some way facilitating changes to state policies on exemptions, concessions and rate capping.

We have already heard some comments on that this morning.

There is also the option of the states and the Commonwealth allowing an increase in local government revenue, initially by allocating tax on tax revenue associated with the GST to the local government sector.

Access Economics has certainly done some work which has raised some examples of the fire services levy that applies in Victoria. Another example is where GST is calculated into the base on stamp duty. There may well be a case to be made that there is a tax on tax arrangement. In fact, the fire services levy is a very interesting one. Quite recently, in Victoria, after we had put our budgets to bed, we suddenly got a 17 per cent increase courtesy of somewhere else that we had not planned on. That is a very good example of the sort of cost shifting that we have been discussing.

The report then goes on to make the point that:

As long as the Commonwealth continues to balk at measures aimed at reducing VFI at its source, there is a clear case for additional local government FAGs.

Then it is a question of what may be some options for increasing financial assistance grants. And picking up the point that Hadley made, there may be a possibility of a change to the escalation factor. Clearly, the current arrangement of doing that on a per capita basis is deficient. It does not keep pace with the growth in Commonwealth tax collections and the figures that Hadley quoted are certainly in the report. There is the consideration of the option of a fixed share of total Commonwealth taxation revenue. We note that ALGA have certainly proposed that in their submission—we might have an argument about the quantum. There is the option of adopting a real terms per capita betterment factor.

The other option that remains—which is also raised in the report—is access to the GST windfall. There seems to be an indication that some of the projections for the amount of GST may exceed what was earlier anticipated. I think it is also worth remembering that the first version of the intergovernmental agreement proposed a portion of the financial assistance grants going to local government. Obviously in the final rounds the impact of removing food from GST reduced the quantum of revenues. It may well be that that is being offset by the windfall—noting that that comes on stream at different periods for the different states.

Given those sorts of conclusions, it says to us a couple of things. Firstly, the key issue is not so much the distribution method but the level of funding assistance to local government. Any finding of the inquiry needs to address that issue. Secondly, the financial neutrality argument to the Commonwealth, which we acknowledge is the term of reference in which you need to operate, should not necessarily limit this conclusion because the cost shifting has been mainly at the gain of the states. If we accept the current arrangement—that local government is a creature

of state administrations—then part of that response is clearly a responsibility associated with that, which may be able to be addressed in how FAGs are passed through to the states.

At the end of the day, the inquiry has certainly made the point that nationally there is an infrastructure renewal gap somewhere in the vicinity of between \$2 billion and \$3 billion—significant work that has been done in Victoria confirms those figures. If anything, it probably suggests that that is quite low. Local government has a limit on its borrowing capacities because much of the infrastructure that it needs to fund does not have a revenue-generating capacity attached to it. The capacity to raise funds is quite limited.

Our conclusion would be that if that is the quantum of the current infrastructure gap and we have established that there is a significant cost shift, how can that be addressed in the future? We think it would be feasible to argue for a very significant increase in the financial assistance grants. If you wish to close that gap you would be talking about doubling that quantum. That can perhaps be done, in the long term, by looking to access the windfall from GST and rolling the existing financial assistance grants on top of that. Given that that is something that would need to be implemented over time, there may be some scope to investigate the quantum of tax on tax effects that could be immediately reallocated to local government as a means of getting to that point.

I will just finish by saying that we argue that it would seem perfectly reasonable that if, under the federal system, the Commonwealth is raising significantly more revenue than it spends, it should have an entitlement to have some say in what those funds are spent on. If there is a national priority to close an infrastructure gap, that is something that can be linked to the financial assistance grants and you can measure that result over time. So they are areas that we encourage the inquiry to consider.

**Mr Sides**—I would also like to come back to the Commonwealth perspective. In our written submission we spent some time emphasising what we see as the three roles of the levels of government. Essentially, in simple words, the Commonwealth is into nation building, how we compete internationally and all those sorts of issues. The states are essentially about capacity building and providing major infrastructure. Local government is about community building. The important question here is: what if this inquiry does not end up with conclusions that can be implemented? What is the future? I can tell you very simply—and the people here will tell you, as well—that cost shifting is happening; it is probably happening at the rate of \$50 million a year in Victoria alone. The result is—and the Grants Commission people will tell you this—that the operating surpluses are shrinking. In councils when the operating surplus shrinks they do not have the money to spend on capital expenditure—which is in decline—and infrastructure declines. Eventually, national policy is affected.

One of the classic problems in the US is that local infrastructure at the farm gate, the factory gate or wherever, cannot support the international competitiveness of the US. I read this in an inquiry not long ago. I think there is a real risk of that happening in Australia. If we have to have B-double trucks and all these things, in the end it is exactly the same issue as we have in telecommunications: it is about the last kilometre of copper wire and what it can deliver. It is no different with any other infrastructure. The important thing we would emphasise is that helping local government makes good national policy.

**Ms BURKE**—If you get more FAGs or a percentage of GST that will not stop cost shifting. It would not prohibit the states loading you up with additional resources. It does not stop the states saying, ‘Well, now you’ve got more dough; we’re going to take more away from you.’ I can fully understand the argument you are running about FAGs, but that does not actually stop cost shifting. So do you have any comment about how to stem the flow of cost shifting? If you get a guaranteed carve of GST would that increase cost shifting via states on to you?

**Mr Spokes**—We are suggesting two things. Firstly, at the end of the day part of that grant can be linked to a national priority, so in a sense you are adding some element of performance to a significant component. We suggest that in the next 10 years that priority might be infrastructure; at some other point it may be something else. I guess, in essence, the performance of local government will be the measure of whether further cost shifting is necessary. Secondly, we accept that if we are operating under the current federal arrangement where the Commonwealth raises more revenue than it expends, and in the absence of any other change to that arrangement—and we are certainly not advocating that—at some level there will always be revenue that needs to be passed down. That revenue should be tied into a more appropriate national agenda and when those financial assistance grants are paid to the states it should be indicated that the first X number of dollars is for local government purposes. To that extent it would be passing it on to local government. We also argue that the States Grants Commission—certainly from Victorian experience—is the appropriate mechanism to do that. But if you have introduced a priority such as a national infrastructure gap you would expect some change to the formula to try and allow for that.

**CHAIR**—Can you expand on that point. Are you saying, if I read it right—and it is almost like tying financial assistance grants—that, in effect, some of the money that is currently going to the states ought to be earmarked for local government infrastructure?

**Mr Spokes**—Yes, that is what we are arguing. I am hesitating to use the word ‘tie’ for all sorts of obvious reasons. I make the point that over time you can relatively easily measure the impact of that simply by looking at the depreciation and the capital spend in the balance sheet of individual councils. That levers up, as that issue is addressed, the capacity of individual councils to determine where they spend their rate revenue. Certainly the other theme that comes through in the inquiry—and this seems to be consistent across the country—is that the role of local government has expanded. People are not necessarily asserting that it should be contracted; the issue is how you structure the financial arrangements to support that.

**Mr Sides**—I will expand also on the answer to Ms Burke’s question. Some issues in relation to state and local government could perhaps be looked at in the next intergovernmental agreement. One of the big causes of cost shifting is revenue denial, in effect, by the state, which could be looked at in the next agreement. I will give you a very practical example. In my city between 15 and 20 per cent—I cannot remember the exact percentage—of my revenue comes from fees I charge which are totally controlled by the state. Victoria quite happily put up over 300 fees in the last state budget and they did not put up—

**Ms BURKE**—They just did them by CPI; we have to be very careful about how we go with this.

**Mr Sides**—I do not mind them putting them up by CPI, and we would welcome that too. But the point is that I have probably 70 or 80 statutory charges which they have not put up for five years because, (1), they do not want to, and, (2), it is not front of mind. That effectively means that I have to put another one per cent of rates on, because I have a section of my income that is going nowhere.

**Mr COX**—What are those charges?

**Mr Sides**—There is a range of them: parking fines, building registration, planning fees, some aged care fees. These are all things that are prescribed and you are not allowed to put them up and that puts a lot of strain on us. It is one of the major sources of cost shifting. It seems to me that maybe those sorts of things can be picked up when we are doing agreements. It is no different from, say, rate capping in New South Wales; that is a similar example. It just puts strain on the system. Those things probably can be addressed in agreements.

**Ms BURKE**—I would like to go back to your comments, David. Besides having a relook at saying to states that they have to give the GST direct to local government for X, Y and Z, you also mentioned the windfall that the Commonwealth will gain, because currently the Commonwealth are actually getting more GST than they expected and they will have a windfall that they can now keep. By virtue of the agreement they will not have to pass it on to the states.

**CHAIR**—We will get Treasury to comment on that in a moment.

**Ms BURKE**—We will get Treasury to comment but I am fairly confident about this—that there is an excess. David, you also made a comment on windfall. Were you also looking at the GST windfall or were you talking about redoing the intergovernmental agreement structure?

**Mr Spokes**—I was looking specifically at the GST windfall—and I do not have expertise in that area—and if that means you need to look at the IGA you would certainly do that. The central proposition is that it seems clear that, firstly, one of the problems is the quantum of funds, and, secondly, that appears to be a source of funds that is growing perhaps faster than was anticipated, and that may provide a way of implementing a change that does not disadvantage the states or the Commonwealth. We are certainly not on about trying to make life more difficult for the states; we are on about trying to make it more comfortable for local governments. We think that provides an opportunity to do that.

**CHAIR**—It might be a good opportunity to get Treasury to comment on some of these points now.

**Ms Harris**—I have a couple of points. I am not quite sure what the windfall is that is being referred to. Under the IGA, which was then sort of embedded in the new tax system act, basically the Commonwealth was committed to passing all GST revenue to the states, so there is no specific windfall as such. Essentially, the heart of the agreement was to pass all GST revenue to the states. I would also correct an earlier comment that the original IGA actually encompassed some sort of sharing arrangement with local governments. I think what had happened was that the original IGA set out that the states and the Northern Territory would take over the role of providing financial assistance grants to local governments and they would commit to maintaining, at a minimum, the level of financial assistance grants that had previously been



provided by the Commonwealth, but there was no specific arrangement for any further specific share of GST revenue going to local governments under that original IGA.

**CHAIR**—Is it feasible to say that it could be re-examined? In the light of saying, ‘We need an infrastructure project at a local government level for, say, the next five years as a thing of national interest,’ what is the feasibility of saying that the intergovernmental agreement could be examined on that basis?

**Ms Harris**—Just to run through the way in which the arrangements are set up, the IGA, as I mentioned, sets out that the Commonwealth will legislate to provide all the revenue from the GST to the states. That is then given effect by the ANTS act. Essentially, oversight of the intergovernmental agreement is invested in a ministerial council. That is part of the intergovernmental agreement, and that says that the ministerial council can review or look at the way in which the IGA works. But, as I understand it, any issues that are to be considered by that ministerial council are ultimately determined by unanimous agreement, so whether or not it chooses to consider changes to the way in which GST is distributed is essentially a matter for the ministerial council that oversees the intergovernmental agreement.

**CHAIR**—So in practice that could be done?

**Ms Harris**—It could, subject to it being raised in the ministerial council under the current provisions, as I understand it. That is the point too: to be considered by the ministerial council there would have to be unanimous agreement for that consideration. I think that is the way in which the IGA would work.

**CHAIR**—So it is a consensus decision. To clarify what we are defining as a windfall, Budget Paper No. 3 said:

Their GST revenue will exceed their Guaranteed Minimum Amounts—

that is, the states’—

by a combined estimated total of \$269.6 million in 2003-04.

**Ms Harris**—The way in which the guaranteed minimum amount works is essentially that the states committed to doing a number of things as part of forming the intergovernmental agreement. They agreed to remove certain taxes. Also previous financial assistance that had been provided to the states under the financial assistance grants and the revenue replacement payments that the Commonwealth took over when the states lost the capacity to apply franchise fees were all put into a formula that basically, over time, works out relatively where the states would be if those taxes, the revenue replacement payments and the FAGs, had continued to be provided to the states. So there was a formula agreed between the Commonwealth and the states to recognise that, in becoming part of this agreement, the states had given up certain payments and taxes. The way in which the agreement works is that, once the GST revenue is larger than the guaranteed minimum amount, the Commonwealth no longer pays budget balancing assistance to guarantee that the states would be no worse off financially than they had been prior to the agreement.

**Ms BURKE**—I am going to put you on the spot. Are you prepared to say categorically, from Treasury and the IGA, that any excess over the minimum grants—the guaranteed minimum—is all going to go to the states?

**Ms Harris**—That is essentially what the legislation says. The legislation says—the IGA says—that all revenue from the GST is to go to the states and the Northern Territory. And effectively I think it is section 10 and section 13 that give effect to that.

**Mr SOMLYAY**—The local government FAGs grants—are they paid over and above the GST, or are they part of the GST collection? Don't we withhold the—

**Ms Harris**—No, the FAGs to local government are separate payments from the GST payments and were not included in the calculation of the payments.

**Mr SOMLYAY**—They were originally.

**Mr COX**—I want to go back to Hadley Sides and ask him about those Access Economics figures. Did you get Access Economics to do any assessment of what had happened to local government costs over the same period?

**Mr Sides**—Basically, because they bring money in, they do not accumulate reserves very much. I cannot remember the expenditure figure, but basically the revenue raising figure over the last 30 years has averaged eight or nine per cent, I think, which is basically the same as Commonwealth and state. But they are pretty similar and, when you think about it, it is probably not surprising. We essentially have the same sort of wage base and we also have a similar mixture of recurrent costs. There is not a great deal of difference, so I think the expenditure has been rising in much the same way. There are also a few complications. In Victoria we went from—I cannot remember how many councils now—220 to 75, and had a 20 per cent rate cut. In the case of my council, the commission has decided to break the record and go for a 30 per cent rate cut. So expenditure is probably a bit hard to manage over time. But, if you look at that 20 per cent cut, in real terms we have only now started to get back, after seven or eight years, to where we were when they made that cut. So that probably gives you a bit of an idea.

**Mr COX**—So where is the adjustment showing up? Are you collecting more revenue from other sources, or are you running down your infrastructure?

**Mr Sides**—It depends on the council. We are generating revenue from other sources, but they are now capped, because they are state charges. The ALGA, I think, made the point that a greater emphasis on user charges has developed—and there is a social equity question there as to whether that is really fair—and also there have been, inevitably, lower surpluses, meaning lower capital expenditure.

The other issue is that one of the benefits of a lack of constitutional recognition by local government is that it means we are the state. If the money is going to go to the state, that is all right, as long as they can earmark it for us. The Victorian government and the South Australian government are carrying out quite extensive studies of infrastructure at every municipal level. They have been able to identify that, if extra money were to go that way, it could actually be allocated on the basis of your national priority for local government. We are saying it should be

infrastructure. You could put performance requirements on it. Both of us happen to come from municipalities where our infrastructure is excellent. Ironically, we are going to get nothing out of this. But there are a lot of councils in Victoria, particularly rural ones, that would. This may in fact be the sugar coater for government. The Victorian government has trying to fix up local government infrastructure as a priority. They know that it is a priority. They do not have the money to put in. If there is a windfall gain and part of it is directed through them to this, I do not think they will necessarily find that unpalatable, because it is a priority to them at the moment.

**Mr Spokes**—I would like to add two things. Firstly, partly in response to the deputy chair's earlier question, you could certainly have that system where an increased proportion—however it might be funded—might be allocated for that national infrastructure purpose and still retain the FAGs in the current untied form. Secondly, in response to Mr Cox's question, the Access Economics work does make the point that social welfare related expenditure—perhaps that expenditure traditionally regarded as non-traditional local government expenditure—over the five years up until 1997-98 had doubled the rate of CPI increase. During the same period, local government revenues had increased by about 9 per cent, compared to state and Commonwealth revenues of about 10 per cent. So that certainly indicates a shift there.

**CHAIR**—I want to ask Treasury, coming back to this windfall—or however you want to define it—what sort of figure are you thinking is likely to be there at the end of 2008-09? I have the Treasurer's statement here, which I think is based on state projections. Does Treasury agree with those projections? I think they are talking about \$1.36 billion to 2008-09.

**Ms Harris**—Essentially, in calculating that number the states have used Commonwealth projections on GST revenue, made some assumptions about how the guaranteed minimum amount will move over time and then in a sense taken a bit of a leap of faith on the Commonwealth Grants Commission's relativities and assumed that they will operate over time. What is actually said in the Treasurer's press release is that these projections are only indicative guides and they are just done in the standard form of a projection rather than an estimate. They are just there as an indicative guide.

**Ms Edsor**—It always was envisaged that the GST that the states received would grow faster than the guaranteed minimum amounts calculated, so that over time the states would in fact be better off under the intergovernmental agreement.

**CHAIR**—Are we calling it a windfall?

**Ms Harris**—All that is happening in relation to the way those tables are working is that, basically, there is a projection that in 2007-08 the Commonwealth will no longer be having to top up the GST payments in terms of the guaranteed minimum amount.

**Mr COX**—The windfall at the moment is that the Commonwealth gets to keep what it does not have to top up. That is the bottom line.

**Ms BURKE**—That is what I have been trying to get someone to say.

**Ms Edsor**—During the transitional period, the Commonwealth can make savings on budget balancing assistance, to the extent that GST is higher than forecast. But once the transitional

period ends, all of the benefit from additional GST revenue accrues to the states. At the moment, I think it is accruing to five out of the eight.

**Ms Harris**—It is projected to in 2003-04.

**Mr Beadman**—The Victorian speaker earlier mentioned the growth in total revenue collected by the Commonwealth since 1983, I think. I would like to draw to the committee's attention that the Northern Territory Treasury in budget related papers have done a similar exercise. I think the growth in total revenue since 1983 has been in the order of 70 per cent, the growth in untied revenue sharing to the states has been in the order of 20 per cent and the remaining 50 per cent has been tied up in tied grants from the Commonwealth to the states, or on Commonwealth own purpose expenditure.

Given that scenario, I think the suggestion that the states ought to be doing more, when they are getting a disproportionate flow-on increase of the total revenue collections, is a bit unreal, especially in a setting where the Territory population is under enumerated census after census, because the ABS cannot get into the bush and get a decent count of Aboriginal population. That has cost the territory a second seat in the House of Representatives and it has cost the territory in the order of \$20 million of the general purpose revenue sharing. I wanted those facts on the table because I think that tended to get blurred a little bit by the discussion about windfall GST collections.

**Councillor Montgomery**—I think we are going down a dangerous path, talking about GST and future opportunities for funding local government from that particular component of taxation. As you all know, the GST is not comprehensive across the economy. It will rise and fall in its growth patterns, as the economy rises and falls. When we talk about a share of public taxation, we are not talking about a share of GST. I do not think we should be locking our local governments into a position that says that. Our costs will grow. We have heard today—and over the lengthy period that you have been sitting, Chair—that local governments' costs have grown beyond what one would have expected when one looked at the traditional services that councils provided. So I think that there are some points that should be made. One is that we are asking for a change in the way that local government is funded from public dollars and to go away from this grant mentality that financial assistance grants deliver. FAGs have been serving local government well, but local government is better served having a share of public dollars. I believe that the committee should accept that and recommend that.

Regarding recognition of local government in the governance of Australia, in the past we have made the point to the committee that we needed constitutional recognition, but I think we should be seeking from this committee something much more realistic, and that is a recognition from the parliament that local government has an integral part in the governance of Australia. I take the view that when the Australian public are ready to give constitutional recognition at a referendum then our position will have been so entrenched that it will probably not be required anyway. I hope that this committee can be a starting point, by getting a positive recognition right from the start of the importance of local government in the governance of this nation. Having said that, and adding to it that the position that we should rightly take an appropriate share of public taxation, I think that we can move forward with a new and reinvigorated local government that serves the people of Australia. But I do not think we should be going down the

hoary path of trying to link it to GST revenues, because that will necessarily rise and fall as the economy rises and falls.

**Mr COX**—I want to pursue a couple more things about the GST. Mike, you were concerned that the GST revenue base would fluctuate with the economy. Would you like to comment about local government's traditional revenue base—which is, of course, rates on property value—and its stability?

**Councillor Montgomery**—Certainly. Councils are no longer only the roads boards or water boards or any of those things that a lot of people—indeed some members of parliament—traditionally feel are still the appropriate boxes to put local government in. Our very rough estimate is that about 20 per cent of councils' budgets, and this is on a holistic basis, are spent on social services rather than on the infrastructure services that were traditionally provided by local government—and, of course, that is going to grow over time. As the population ages and as the baby boomers start to move out of the work force and expect services to be provided to them, particularly by the councils, those traditional roles of local government are going to become even smaller in percentage terms. Of course, councils are going to have to have a better system of financing themselves than they have had in the past. From this committee's recommendations there is a great opportunity to provide for the future of those community services through funding arrangements for local government that in fact accept the changing circumstances in this country.

**Mr COX**—I want to ask Jan whether Treasury has any comment about Access's finding that cost shifting by the GST is a tax on a tax?

**Ms Harris**—Not having seen the Access reports, I do not have any comment.

**Mr COX**—Can you take that on notice and get back to us?

**Ms Harris**—Yes, we can. Can you clarify the question again?

**Ms BURKE**—We can rephrase the question and send it.

**CHAIR**—We have got the Access reports here.

**Ms BURKE**—It might be better once we actually phrase you a proper question and send it across.

**Mr McLean**—I would like to thank the parliament and this committee for the work that they have undertaken looking at this very important issue. I would also like to take this opportunity to make a few remarks on behalf of those tens of thousands of employees out there who are within the local government serving the community daily. I am very pleased to hear some of the comments that were made by the Australian Local Government Association, particularly its president's comments just a moment ago. It is quite important for us to recognise what local government does and how important it is and to ensure its funding. Local government is very much a way in which work is organised to meet the community's needs and expectations. As our society grows and its standard of living increases, it will expect more and more from local government—as has just been outlined.

My organisation would like to see a lot of the politics taken out of local government funding and we would like to ensure that there is a cooperative arrangement between states, local government and the federal government to ensure long-term committed funds for local government. All too often we find ourselves on the end of having to go and talk to an employer in local government because the funding for a particular project has ceased. Money has run out and they have got to make a decision between undertaking a children's service somewhere or putting a bit more tar on a piece of road. These are difficult decisions for local government to make. They affect the community, they affect the people that live in those communities and in smaller towns they affect real jobs that provide significant employment in those regions. Local government provides an extremely important part of our society. When you get out into the bush and regional Australia, the functions of local government change dramatically to those of local government the city. They are the government, they are the people who provide the services at those local levels and sometimes they are the best equipped to deliver those services because they are, after all, closest the people.

The issue that was raised about finance is very important to all of that. I also know that my organisation has some concerns about governments that pursue rate pegging arguments. We also sometimes have arguments with councils that decide, 'We're not going to increase our rates by the full amount of dollars that we're entitled to, because that'll make us look politically nice.' But that is a debt that each future council continues to carry, because that original council did not at a point in time increase its rates to the significant level it could have and it is behind the eight ball for the next 10, 20 or however many years it is.

We would like to see whatever comes out of this committee be something that is consensual and something that allows the three arms of government to work towards ensuring that those services are delivered for all Australians out there in the community and something that ensures, in a cooperative manner, that, where local government are the best people to deliver the service, they deliver the service to the community. That means cooperation, I think, between state governments, national governments and local governments.

With the issues of trade and infrastructure that were talked about earlier, local government had a bit of a wake-up call earlier this year when it started to look at issues that might come out of WTO GATS negotiations and realised that there are other issues on the sideline that are not just domestic issues but also international issues that can find themselves on the table in local government. It is a very important industry. It not only services rates, rubbish and swimming pools—the infrastructure services to our community—but does a wide range of duties including everything from weighing wheat trucks on country roads through to running the swimming pool at which Ian Thorpe trains. This is a remarkable industry which we all have a responsibility to ensure is funded correctly. Again, on behalf of my organisation, I would like to publicly thank the committee and the minister, in particular, for conducting this inquiry.

**Mr Spokes**—Apropos of Councillor Montgomery's comments, we would certainly like to make it clear that we would endorse that general direction. In a sense, the view that we have put is partly in response to the challenge the minister gave us which was that, rather than complain about a problem, we try to think of some constructive solutions. That is what we have done. We would certainly be of the view that the ideal result would be to get to a point where there is a share of taxation that is known and becomes a permanent part of the arrangements, along the lines that Mr McLean has just referred to, in the sense of recognising that there are three levels

of government in this country, there are different levels of revenue raising capacity and we need to develop a system from a whole of government perspective. There may be some opportunities along the way to look at other mechanisms to get to that point.

**CHAIR**—I think Local Government Managers Australia wanted to say a few words.

**Mr Delahaunty**—I am the current president of Local Government Managers Australia and with me is the immediate past president, Trevor Starr, who was president when we made the submission to the inquiry. Just to explain, our by-line is that we are the professional voice of local government, representing managers right across the industry—not only CEOs of local governments but also the various managers employed in local government in various disciplines right across the spectrum. Those managers supervise and manage a great number of staff, and the feedback we have had from them agrees with a lot of the comments made here today. Importantly, without going into detail, the evidence is there that cost shifting is alive and well and has been for some time. Local government has assumed responsibility for the supply of many services and has had to find the funds to do so.

One of the reasons for that, and I think it was mentioned earlier, is that we are fast becoming aware that, in a lot of areas certainly, we are in a service industry and local government is one of the best levels of government—and the closest to the people—to deliver those services. Historically our revenue has been land based. With the services that we have taken on in recent decades we have seen that there are better areas from which we can gain revenue to meet the costs. It is also worthwhile pointing out that the grants we receive, whether they be from the state or the Commonwealth, are in most cases tied and are a part-payment for the service with a top-up from local government being required. The only flexible one is the general purpose grant, which we talked about earlier. Certainly the response we have had from most of our members is that the minimum grant situation is not really supported.

Local Government Managers Australia sees the cost shifting inquiry as an opportunity that has had to be grasped. We would look forward to a real opportunity, at the end of the day, for all our customers to get a better deal. That is how we feel it should be approached. We should probably look at it more broadly, examining our current position and where we would like to be. We should then create that situation and examine how we might move from where we are to there.

We believe that the current system has inherent weaknesses. For example, structural reform in local government across Australia has not been particularly successful, and certainly our members indicate that there are still opportunities for structural reform and we would welcome opportunities to examine that further. Certainly there are areas where the amalgamation of councils will make them more viable units. The fact that in some communities there are non-viable units is part of the reason why some of the grants being allocated perhaps are not being effectively used at the coalface.

We need to overcome the parochialism and the political parameters that set the scene with a lot of our local governments if we are serious about effective service delivery at the end of the day. In a lot of cases, to supply the infrastructure that is required and the services, we really need to examine economies of scale and how we can examine that. In some areas our members have suggested that perhaps it is worthwhile re-examining the ability of regions to play a real role in

the future of local government in getting grants into areas where they might overcome the parochialism argument and allow service and infrastructure to be supplied on a viable basis.

We look forward to the inquiry to be able to create an environment for change. We believe that it is necessary. We strongly believe that it can be created by redefining the roles of each level of government. We should put the rationalisation issue back on the table and follow the money trail right through. We believe there is evidence that it is not efficient where grants in various categories to local government go via the states, that we would be better off supplying those grants in a more direct form and that we would get better value for the customer at the end of the day and better value for our money.

We believe we have to remove those duplications and the overlap of services undertaken by the various levels of government. Then, when we achieve that, we can examine funding in a more appropriate way to look at what sources those funds are best coming from and to ensure that there is a built-in growth factor so we do not have to revisit the issue on a continual basis and compete with one another, which we as individual local governments do today. Our aim is to encourage the restructure of local government and to provide service efficiencies by re-examining the system. We believe there is benefit to be gained by looking at, examining and researching what is a viable local government unit, and the opportunities again on a regional basis.

We would support the introduction of performance monitoring of local governments that rewards efficiency and those that are achieving. We welcome accountability and transparency where grant funds are being passed on through the system. We would also welcome a further study to be undertaken on the capacity of various communities to meet their costs and a greater examination of the ability of individual communities to meet those service costs.

In the intergovernmental relations area, we would welcome the opportunity for greater long-term planning of services, and that would mean in a lot of cases the levels of government having greater opportunities to talk to one another about those services. Also, we would welcome the opportunity for local government to have some input into programs at the source level so that we can define some of the conditions of some of the programs undertaken by other levels of government. We also welcome the comment made in evidence to the inquiry about an impact statement being imposed both at a Commonwealth government level and at a state government level where our statement of impact on local government is made. We believe that will benefit our cause.

We believe that the way forward is for us to develop a common vision, and that means involving all the stakeholders in mapping out a common process and agreeing on the way forward. We have suggested that we have a reform review working party and I think ALGA has suggested a similar situation. We believe that the recommendations that may come out of this inquiry really need to be the start of the process rather than the end. It is important that recommendations are made, that we use information that has been gathered and we undertake some further studies of realistic strategies for change in local government. Local Government Managers Australia would welcome the opportunity to participate in that and I emphasise that we would see it as a beginning rather than the end.



**CHAIR**—Thank you very much for that. I have a couple of questions that come from that presentation. You are talking about the problems of ‘the filtering of federal grants’, when going through the states. I wonder if you could elaborate on examples of that?

**Mr Delahaunty**—A common example that is quite often used by practitioners in local government is the Home and Community Care program. In that area, we have people supplying a big array of services and, in a lot of cases, the programs are not necessarily properly designed to meet the needs of communities. Also, we find that we are dealing with a state organisation which sets conditions and makes decisions, where really they are not the provider of funds. We believe we would be better off dealing directly with the source of funds and being able to agree on the conditions and requirements for the service delivery.

**Mr NAIRN**—You mentioned monitoring performance. Who would do that? Would you see the result of that performance monitoring being put back into the grants commission process so that it would be an input into their deliberations as to who gets what?

**Mr Delahaunty**—The first thing is that most of our local governments are moving into the situation where they are recording performance indicators themselves. They are keen to start looking at benchmarking with others. It is important when we benchmark, if we are going to gain any efficiencies out of benchmarking, that we must compare apples with apples; so there are some ground rules that need to be set so that that information is uniform. Certainly, we believe the grants commissions could gather some of that information. Providing that it is available openly and transparently, we believe it can only serve to benefit local government and raise standards.

**Mr NAIRN**—Do you see the result of that being the grants commission saying, ‘This council is really quite inefficient so therefore we should not reward it; there should be some adjustments with their payments’? Is that the result you would see of such a process?

**Mr Delahaunty**—Yes. In that situation it could be used that way, but it could also judge the effectiveness and size of local governments and the viability of some areas. Therefore it may also be used to bring forward structural reform.

**Mr Neeves**—I would like to build on a point that Lindsay was making before. The Commonwealth is excellent in its financial reporting of how much money it provides to other spheres of government, whether it be general purpose payments or specific purpose payments. It provides actuals and it provides forward estimates. Yet if you went to the state treasury budget papers, you would not find any similar documentation whatsoever. It is very hard to get a strong, robust picture of the volume of funds going directly to local government.

South Australia, for the first time this year, in its papers has provided that. That is the first year that that has been done. The papers specify—although only for the budget year, of course—how much money the state is providing in terms of specific purpose payments to local government. We would like to see that practice infecting other states very quickly, because then you will start to get a more transparent picture of how much money is flowing through. We see the figures very clearly for the money flowing from the Commonwealth to the states, but there is a big gap in terms of the quantum of funds going from state governments to local governments. We will then start to build a picture of the resourcing that is flowing through.

**Ms BURKE**—Following on from that, I wanted to ask a broad question of both the Commonwealth Grants Commission and DOTARS. You give out the money, and it seems that the Commonwealth hands over a large bucket of cash—not in FAGs, but in the special purpose payments area—without any strings attached. In its submission and around the table today, DOTARS has also noted some impediments that the states are placing on local government—rate pegging being the No. 1 impediment that keeps coming up. Some states also do not want to bite the bullet in respect of council amalgamations. We have heard evidence from people that amalgamations will bring cost savings and benefits but we have also heard, on the other side of the argument, that a lot of state governments and local councils will not amalgamate because they fear they will lose FAGs.

The current national principles state that if you go down the route of amalgamations, your FAGs will be cut. Those comments are by way of lead-up to my broad question to both the Commonwealth Grants Commission and DOTARS. So is there any stick that we as the Commonwealth can use to say to state governments, ‘We have these impediments that you are imposing on local government, we are giving you large buckets of money, how can we now improve these things and remove some of these restrictions that you as state governments are imposing on local governments’?

**Mr Mrdak**—You are right: in the formation of the current act, which provides funding for FAGs, the drift was to untie and provide maximum autonomy for states in relation to the use of those funds. 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. It premises all of the FAGs payments, the \$1.5 billion for the coming year, on the basis that local government being an administrative function, task or entity of state governments. Hence the comment by ALGA that if you want to change that then you need to have a distinctive view that local government is not that and that it is a level of government with which the Commonwealth should have a direct relationship in relation to its governance as well as its program delivery. So in that sense, the FAGs act as it currently stands does not provide that mechanism.

Essentially it is an SPP transfer mechanism; albeit that it does not specify what those funds are then used for. That is premised, quite clearly, on the basis on which the Commonwealth has always approached local government 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.

**Mr Nicholas**—I cannot really give you much insight into the local government arrangements because, as a general rule, the Commonwealth Grants Commission is not involved in local government financing. Yes, we have done some specific exercises in there from time to time; but it is not part of our general business. Our general business is advising on the sharing of the goods and services tax amongst the state governments. In the context of where I think your question was going, the IGA does make it clear that the goods and services tax revenue which is allocated to the states is able to be spent by the states in accordance with whatever priorities they themselves set or choose.

Against that background it is very difficult—in fact I think it is conceptually inappropriate—to try and put some sort of performance criteria on the allocation of the goods and services tax and

as to how that might be spent. To put it in a slightly more technical fashion, the allocation of the goods and services tax is aimed at equalising the financial capacity of state governments to provide their overall services; it is not about equalising the actual outcome of what state governments do.

**Ms BURKE**—Looking at the special purpose payments and going back to the comments from ALGA, do you hand over the money to the states for the special purpose payments?

**Mr Nicholas**—No. The commission's role is purely one of advising on the allocation of the GST. The special purpose payments are ones that each of the other Commonwealth agencies deal with on their own.

**Ms BURKE**—So there is no way that you know of actually making some requirement—and I am throwing this open for discussion to see if we can go somewhere—by saying to the states, 'We have given you \$100,000 and this is the percentage of overhead costs that you have to administer'? Is there any way for us at a Commonwealth level to force the states to actually demonstrate where that money has gone, how it has gone and how it has been used? We have had various discussions with various department heads about the inability to constitutionally say, 'This is how the money gets acquitted and accounted for.'

**Mr Nicholas**—Your question is really outside my sphere of expertise but certainly, as I understand it, specific purpose agreements between the Commonwealth agencies and the states have all sorts of reporting criteria in them. I cannot comment on how well they can be enforced and how well they are actually used.

**Ms BURKE**—I would be interested to hear from the state grants commissions on special purpose payments and any understanding as to cost shifting in respect of those areas that you have come across. I know that this issue gets dealt in with the things that you discuss with councils. Does anybody have a general comment on this one? I am referring to the percentage of special purpose payments that might be held back by the states. Do you have any experience of that happening? If the answer is no, that is fine but I am just wondering if you have come across that.

**Mr Lester**—I would like to pick up one point that you made earlier about restructuring and whether it means a reduction in grants. There is no easy answer to that question. In the most recent experience of Victoria with Delatite, the total grants to the new Benalla-Mansfield one are greater than Delatite would have received. I know there are other examples of mergers where they have gone down and in that situation we would have a transition, so we would soften the blow if that happened. It is not axiomatic that they go down by merger.

**Mr Wright**—I would like to take up the same point. I note with interest that at the Barraba hearing the Mayor of Armidale Dumaresq makes the following statement:

We were penalised \$120,000 on the FAGs grant for the effort that we made in amalgamating voluntarily.

That is not true. Armidale Dumaresq Council has continued to receive increases at about the same level as the funds have increased for the state prior to the amalgamation, if you aggregate the separate councils since the amalgamation period. None of the councils in New South Wales

that have amalgamated have received a lesser grant as a result of amalgamation through that process. That is because of the amalgamation principles that we have in place.

**Ms BURKE**—I know that no-one here is from WA. When we had our hearing in WA, I got a statement that there was a notion that it was detrimental to actually go down the amalgamation path, by virtue of the national principles put out by the Commonwealth Grants Commission.

**Mr Mrdak**—The act neither assists nor deters amalgamations, and I think this is the issue here. Because of the way in which the FAGs act operates, it is a matter for state policy as to structural reform and then a matter for grants commissions and state governments as to how they treat that in relation to the grants allocations. Certainly a reduction in the number of councils enlarges the pool overall, but how that operates and what transitional arrangements are put in place by grants commissions and state governments is really a matter for the judgment that they make in relation to the needs.

I think what that might be is a misrepresentation of the horizontal needs issue vis-à-vis how it applies to mergers, but it comes back to the point that you made earlier. The FAGs act is not an agent of change in that sense. It is designed to be an allocation mechanism of a certain quantum. If the Commonwealth wishes to play a role in that, it then needs to take a fundamentally different approach to its relationship with local government. I suppose the issue that we need to draw attention to is that the parties, in that sense, that are not at the table today are state governments. They are the crucial players in the sense that changes in local government and the sustainability of local government are very dependent on what is in it for state governments in their respective jurisdictions. That is the key element here and I suppose that has been missing somewhat from the table today and also from submissions to the committee to date.

**Mr Beadman**—I think we need clarification there. Mike said that the reduction in the number of councils increases the pool. I think he meant to say that there are fewer mouths to be fed by the fixed pool.

**Mr Woolley**—If councils amalgamate and one of the aims of that amalgamation was to create a fiscally more viable unit then I think you would be surprised if the grant did not go down. If their grant did not go down, you might question whether you have created a fiscally more viable unit. In Queensland, when we had amalgamations a few years ago, the grants commission of the day recognised that there are set-up costs and one-off costs for amalgamations and they held the grants at the previous levels for a couple of years before they then let the methodology have its way. I think other states did that as well. But there may well be cases where councils amalgamate and the grant may go up depending on why it has been amalgamated. It might have been amalgamated for reasons other than creating a more viable fiscal unit.

I will make two very quick points. Firstly, earlier the ALGA made a comment about the states not publishing what they give to local governments. For the first time this year, Queensland has published in our budget papers a summary of all the grants and subsidies we give to councils, so we have started to do that. Secondly, in terms of amalgamation of councils, sometimes the comment is made that because there are still 100 councils or 170 councils, there should be fewer. In Queensland's case, I might point out that whilst we still do have 157 councils, including Aboriginal and Torres Strait Islander councils, we have roughly 60 per cent of our population

residing in six councils. So we would consider that we have a fair degree of economy of scale achieved in the bulk of the state by having 60 per cent in six councils.

**Mr Delahaunty**—To clarify, the Western Australian situation is unique. Western Australia, as you might recall, did some actual divisions of councils and you might recall that the City of Perth was divided into four and the City of Wanneroo was divided into two. In that situation you ended up—

**Ms BURKE**—You created Peppermint Grove which is just the favourite of all time!

**Mr Delahaunty**—And in that situation, of course, you are creating new local governments and new demands for the funds and that meant that the grants commission in Western Australia had a hue and cry from about 140 other local governments to the effect, ‘As long as ours doesn’t change by you creating these new local governments.’

**Prof. Daly**—I think if we keep talking about amalgamations, we are going down the wrong track. Amalgamations can lead to two hopeless cases being put together to create a more hopeless case. I think what we should be talking about is resourcing local government to meet the responsibilities that it ought to front up to in the 21st century. When you talk about amalgamations, you are probably going back to boundaries, which were drawn in the 19th century and making them sacrosanct in some way. It seems to me that if we are going to get on top of the problems of local government somehow the role of local government has to be redefined and then resourced. Amalgamations are no solution to that.

In terms of grants, going back to your earlier question, we see situations where, if there were some type of reform, the grants would be more effectively used. I do not think that is any secret, but we have no role to do anything about that. If councils amalgamate, they get the same grants for a period of two years in New South Wales with the option of keeping them for another two years. The situation where their grant might be affected is where they get bigger. There are some measures within the system so that councils over a certain size get less out of the grants bill than councils below that size. So that can happen. But they are certainly guaranteed for two years with an option beyond that.

**Mr Burgess**—I did not want to cut across the debate that was taking place about those particular issues—

**CHAIR**—Before we move on, is there anything else on that point?

**Mr McLean**—On that point, council amalgamations may offer some short-term benefits on paper, but if we think carefully about the issue it is not local councils we are really thinking about; we are thinking about the communities and the people out there who actually get the services. Again, if we think about how populations are growing and standards of living are increasing, there is going to be a greater drain on these services—not a curtailment. If you were to think about keeping the funds at this level but having fewer councils through amalgamations, you would really be reducing the amount of money you were giving back to the citizens and the community. That is a point to think about: not just the councils but the services that they deliver on the ground and the Australians who benefit from that.

**Mr Beadman**—I have a very quick comment on amalgamations. I do not think they can be dealt with in a generic way like this; you need to look at specific instances. In the Territory recently three very small community government councils on the Tiwi Islands, representing a total population of about 2,000 people, folded into one council. I would challenge anybody here to say that that was not a good idea. But I want to get back to the original question which was about the onerousness of reporting back to the Commonwealth on tied grants. The Territory's perspective on that—I am talking now from experience in another life—is that that financial reporting requirement is exceptionally onerous to the extent that there have been instances where the Territory's per capita share of a national program has been so minuscule as for us to say, 'We're not prepared to jump through all of the hoops to apply for that share of funding.'

What has not been addressed is the other side of that, which is the Commonwealth's direct expenditure on own purpose programs around the rest of Australia. From our experience, we could trot out countless dozens of programs that have not met the mark because the Commonwealth have not gone through Territory recognised structures in order to get performance delivery on the ground. They have ended up talking to the village idiot in some remote place and then funding him or her to deliver the program in isolation from the established structures. It has been terribly destructive and wasteful.

**Mr Burgess**—I want to come back to the funding issue, but I want to talk about police funding and how that impacts on the local government area. In our submission we broke down the police budgets for 1999-2000 and indicated that, out of a total of close to \$5 billion—\$4.676 billion—of the operational policing budget, the federal government's actual contribution to operational policing in this country is about seven or eight per cent of that total budget. Many would say that constitutionally it is a state and territory issue anyway, but that seven or eight per cent was purely funding of the Federal Police and operations here in the ACT. In respect of operations in the ACT, a portion of that money is refunded back to the federal government.

Our concern has been for some time, when we talk about cost shifting, that policies of a federal government—and I am not just talking about this federal government; I am talking about previous federal governments as well and perhaps future federal governments—impact on policing of the local area. I often use the example of Cabramatta, which—with all the problems that exist there with respect to drugs and illegal firearms and its social problems—has been portrayed all around Australia. If Cabramatta is just a state or a local government policing issue, then I am a poor judge. I think everybody has a responsibility, including specifically the federal government.

So we make points about the part that the federal government can play in this area. We went to a study that was conducted in the United States for the National Institute of Justice and which reported to the United States Congress. They pointed out the major institutional causes of crime. They were communities, families, schools, labour markets, specific places, police and the criminal justice system. They came to the conclusion that most of those issues were impacted upon by federal policy in the United States. I would argue that exactly the same applies here in Australia—that they are impacted upon by federal policies.

What we have said is that the federal government has a role to play. As I said earlier, we need to look at police resource allocation formulas and those sorts of things—and this committee might consider making those sorts of recommendations. But it goes back to the issue you talked

about of grants and where grants might come direct from the federal government to local areas. We have not suggested that the grants go directly to local government, but we would suggest that they be available for local communities, that is, local government and local police.

We should also look at the establishment of some sort of innovation grant similar to one that actually took place in the United States. As a result of a whole range of things over there, Bill Clinton, when he was the President, introduced the Violent Crime Control and Law Enforcement Act and he put up a fairly sizeable bucket of money—\$8.8 billion of federal money—to employ 100,000 extra police across the United States. You probably understand that in United States, by and large, police officers are employed on a very local basis as opposed to here in Australia. The federal government over there put up that money and they employed 100,000 extra police. They then extended the program to talk about what other initiatives could be done at the local area. The Department of Justice set up the COPS program and local areas, local governments and local police departments could access a federal fund based on criteria that were developed through the federal government to implement community policing issues. That could be for extra police, it could be for technology or it could be for civilian staff. It could be for an array of things, provided they met the criteria that were laid down by the federal government.

I have discussed this with police departments in United States and they say that, based on discussions with their local governments and mayors et cetera, this has probably been one of the best initiatives introduced in the United States in the last decade. It has funded a whole range of local things right across the country, many of which police have told me they had some reservations about to start with. But they have come to the conclusion that it was in the best interests of policing right across the United States, and they have actually been able to model best practice on issues across the country over there as well.

What we are saying is that the federal government has got a role to play. There is another House of Reps committee that is looking into crime in the community, and they have been very vocal in saying that they believe the federal government has a role to play in local policing. What that role is has yet to be determined, but we think it would assist local governments, and particularly local communities and police, if the federal government set up a fund of the type that we are talking about at the federal level and with certain criteria to access—which I envisage would be done jointly between local police, local communities and particularly local government. This will be the way forward.

**Mr NAIRN**—I want to come back to the last comment made by Bob Beadman. You commented that programs come in from outside and deal with somebody who does not really know what is happening on the ground and bypass other structures that are there. Should there be a contact point for the various federal departments that they need to go through—and the same at a local government level—to try and avoid that? When we were in the Territory, one of the most common things communities told us was that you would look out the window one day and along would come the department of health NT and the next day it would be the Commonwealth department of health and then the next day somebody from one of the other Commonwealth departments would be there. Communities were telling us that this is a constant problem—each one of them having different demands on individual communities. Can you see a way in which that sort of thing could be better coordinated? Following that, DOTARS might have some thoughts on the same subject.

**Mr Beadman**—I want to continue the development of that picture. The problem is of an incredible scale and it is terribly debilitating for remote councils in particular to have to deal with this never-ending procession of bureaucrats, either Commonwealth or state, in an uncoordinated way. Invariably they arrive without any planning and unannounced and each expects the exclusive time of that remote council, which by any measure is probably least equipped to deal with this myriad of functionaries who want that focused attention.

I pose a question back to the committee: does the committee envisage that ATSIC might be a viable coordinating body as regards all Commonwealth efforts in relation to remote communities? If you read the ATSIC Act closely, it was envisaged that that would be a role that ATSIC might perform. Would it be a rational suggestion that ATSIC spread its wings further and be that coordinating agency in relation to state and territory government departments? I think the answer to both questions is, 'I think not.'

You then ask yourself, 'Well, what is the rational alternative to that?' I can remember the days when the Territory had a coordinator-general, and the theory of that role was that he would perform just such a function. What you come up against is teachers saying, 'What would the coordinator-general know about the delivery of education services at primary school level?' or the health department, 'What would the coordinator-general know about the delivery of primary health care measures or GP services into an area where there is an epidemic?' And the end result is that governments have demonstrably failed to achieve coordination of delivery of services, whether it is the Commonwealth or the states, whether it is in relation to metropolitan areas or, especially, remote areas.

The end answer has to be the empowerment of those remote councils in such a way that the visitors do not get landing rights unless they have first accessed a vacant area in the calendar of that remote council, so that the remote council is in the driving seat. They are determining who they will see, on what day and in what order. But I do not know how you get there.

**Mr Mrdak**—I strongly agree with Bob on that. It would be very easy for me to say—and I suppose some would say it is what you would expect from a public service view—that I am the officer coordinating all the local government matters from the Commonwealth, and we should do that, and ensure that all of that happens through us and we can ensure that there is better delivery. I think that would be a mistaken view. I do not think it has worked in the past, for a variety of reasons. What you are adding is another layer of management, in the end, which may not be the best outcome. Great for the development of my empire, but not much good, I think, in terms of developing an outcome.

I think a better outcome has been demonstrated by the way in which programs like Sustainable Regions have now been developed, which is really heading towards what Bob has been saying—looking to develop a local management for it, and then drawing in the resources that they need across the Commonwealth and state agencies. I think that is a much better model than saying, 'You need a coordinating agency at the Commonwealth or state level,' which then brings all that into another layer of management, which then goes out. That would probably be where we would go, and as I say, I think that is where Sustainable Regions is trying to take regional programs.

**Mr NAIRN**—Just so Bob knows, ATSIC claimed that everybody was cost shifting onto them.



**Mr Beadman**—I think it is probably a valid argument that ATSIC mounts at times, to the extent that when things fail out there, the finger is pointed at ATSIC.

**CHAIR**—Councillor Montgomery, did you want to say something else?

**Councillor Montgomery**—Yes, this is a completely different tack that we are taking, I think, and I appreciate that with such a complex issue we can go down a lot of dry gullies in search of a solution. But I think the point should be made that there is no one solution; there are a lot of different solutions. Part of a solution might be councils merging or boundaries being adjusted to provide some sort of saving at a local level. Part of it is about stopping the cost shifting, and I think that is important and there needs to be some remediation of that cost shifting. Effectively, though, what we need to have is a changed way of funding local government, that comes from a share of Commonwealth taxation dollars supplementing the taxation at a local level. And that should follow from the recognition in this house that local government has a legitimate role to play in the governance of Australia. And, I think, following on from that we can work out the detail of how those dollars are distributed through an appropriate mechanism.

**Ms Jay**—I would like to make a few comments to supplement the submission that we have also put to the committee. The Planning Institute represents 3½ thousand urban and regional planners around Australia. The vast majority of the members of PIA do work in, have worked in or consult to local government and are very well aware of and are affected by many of the issues that have been discussed around the table this morning. Picking up on the point that I think was made by Professor Daly, local government remains the area where the community most feels the decisions of government and we need to be resourcing local government to meet the expectations of the community in this century. They have certainly changed: ageing populations have had an impact and a range of things are impacting on what local government deliver and how they go about delivering those services to communities. In the process, planners have had to widen their view of what planning is actually about and have had to look more broadly at the social and economic implications of many of the decisions that have been made about land use at a local government level. That actually means that there is a greater demand on planning in local governments than there has been before.

Planning is viewed as a necessary and valuable activity by the community and local government planning dominates planning activity across the country. Local government has had difficulty in justifying increases in regulated fees, and I back up many of the points made by the Victorian CEOs and the Australian Local Government Association in that area. Due to the nature of economic and financial arguments imposed by various treasuries around the country, it is increasingly difficult for local government to make ends meet. In representing the planning profession, we are concerned that the inquiry consider the impact of the constraints on funding to local government and the implications of cost shifting on the quality of urban and regional planning throughout Australia.

The concern of our membership is about the increasing requirements from state governments in a number of regulatory spheres that make planning a much more complex exercise. That means that many of the decisions about land management use are much harder and much more costly to make when made at a local government level. So those regulatory frameworks certainly do have a significant impact on the work of planners. We all want good plans, we all want forward plans, we all want strategic thinking from planners, but, as the regulatory framework

becomes more complex, the cost of delivering against those become more complex, and you get much more focus from planning units in local government areas on dealing with the DAs, pushing out the material, dealing with the stuff across the counter and not necessarily thinking strategically about infrastructure, about the futures of our communities and how to plan well for them from a land use perspective, and from a much more complex perspective than that as well. So the Planning Institute does have a very strong interest in the outcomes of this inquiry to ensure that the value that local government adds to the daily lives of every Australian is recognised much more strongly than I think it is at present.

**Mr Delahaunty**—Picking up the point of the planners, I would support that planning and building are major services that we supply these days. I would not like this point to go unmissed. We talked about rate pegging a while ago. The ability of local governments to supply these professional services now—in the planning and building areas these are the cheapest consultancies in the community—are governed by our ability to recover fees that are set by our state governments. If you did a mini budget on that, you would see that it is a real cost to local government to supply that service.

**Mr McLean**—I want to talk about the duplication of services because it is a very important issue. I remember years ago driving through regional New South Wales and I would come across the local council office. I would drive 50 yards up the road and use the state government office on something or other; another 50 yards up the road, the federal government office on something else or other; and then a little further on would be the Department of Lands. All of a sudden, this small country town has all these buildings that are in fact government services. But if I go out to, say, Cobar in New South Wales today and walk into the council office, I will find the inquiry counter and to the right-hand side of the inquiry counter is the Road and Traffic Authority doing licence renewals and the sorts of things you would normally do elsewhere. They are sharing resources.

If I were to go to some depots in New South Wales, these days I would find those depots jointly run by an organisation called Country Energy, a state owned energy corporation, sharing those depots with the local council—a public-public partnership, if you want to use that term. I wonder whether one issue that could be looked at by the committee is who is best equipped to deliver these services and who has the existing infrastructure on the ground. There are a lot of council halls, buildings and suchlike out there that are not used 100 per cent of the time which could be used rather than duplicating the services. Through cooperation with those local councils—whether they be Indigenous communities or whether they be small rural councils in New South Wales—if we were to talk about these issues and look at the services that are provided, we would find quite often that local government could do a better job, take some of the money that would normally be put into administrative costs or that top layer of getting the service there, and ensure that the service has more money on the ground. That might be something for the committee to think about in its deliberations.

**CHAIR**—I have one question on funding. There is concern raised sometimes about short-term funding. Would quadrennium funding solve much?

**Councillor Montgomery**—It depends how much it is!

**Mr Starr**—I have one final point, which Lindsay picked up very briefly, that I would like to emphasise—that is, the desire or the need in our view for all levels of government to provide impact statements when they are considering legislation or arrangements on other levels of government. In our view, it is not well recognised or well undertaken at the moment. We believe those impact statements should be there. They should deal with cost, but they should deal with relationships as well. We would emphasise that, when legislation is being passed or being considered, consultation needs to take place and the impact statement needs to be provided.

**CHAIR**—If there are any further questions that we would like to send to you, I am sure you would be happy to take them in writing and get back to us. We have had a good session here today. I would like to thank everyone because it has been a valuable part of our inquiry. I know that a lot of you have made a big effort to be here today.

Resolved (on motion by **Ms Burke**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 12.43 p.m.**