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26 February 2004

*Let's make
it happen*

The Secretary
Standing Committee on Economics, Finance and Public Administration Committee
House of Representatives
Parliament House
CANBERRA ACT 2601

Dear Sir/Madam

INQUIRY - RATES AND TAXES: A FAIR SHARE FOR RESPONSIBLE LOCAL GOVERNMENT

On 4 February 2004, a report was presented to the City of Swan's ordinary meeting of Council where it was resolved to-

Prepare a submission to the House of Representatives Standing Committee on the report "Rates and Taxes - A Fair Share for Responsible Local Government" based on the information and responses contained in this report.

The City's report to Council contained the officer's comments and the City's proposed recommendations to the recommendations contained in the Committee's recently released Inquiry report. These comments and recommendations are reproduced in the attached submission for your information. Ten copies of the submission have also been provided for members of your Committee.

Thank you for the opportunity to comment on the above Inquiry.

Yours faithfully

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**HOUSE OF REPRESENTATIVES STANDING COMMITTEE
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**INQUIRY REPORT RECOMMENDATIONS - RATES AND TAXES - A FAIR SHARE FOR
RESPONSIBLE LOCAL GOVERNMENT**

1. ROLES AND RESPONSIBILITIES

1.1 Recommendation 1

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers/Chief Ministers and Treasurers and local government to develop a Federal-State inter-governmental agreement which identifies:

- the roles and responsibilities of local government in delivering Federal and State programs;
- policy priorities and strategies at the local level;
- the allocation of funds and resources from the Federal and the State governments to local government in order to fulfil its responsibilities; and
- the expected performance and funding responsibilities on the part of all levels of government, (paragraph 2.75).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported. The establishment of a Federal-State inter-governmental agreement that identifies the four points contained in the recommendation is considered beneficial to local government.

City of Swan recommendation:

The recommendation be supported.

1.2 Recommendation 2

The Committee recommends that local government nominate one representative from each State and the Northern Territory to represent local government at Federal-State inter-governmental negotiations (paragraph 2.80).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported as it recognises the status and importance of local government in the Australian federation. Of course, the issue as to who would represent

each State would need to be determined, but presumably the nominee would be either the President of WALGA or a nominee of WALGA.

City of Swan recommendation:

The recommendation be supported.

1.3 Recommendation 3

The Committee recommends that the Minister representing the Minister for *Local* Government, Territories and Roads propose, as a precursor to the Summit on inter-governmental relations, a resolution that the House of Representatives recognises local government as an integral level of governance of Australia (paragraph 2.89).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported. This issue has been around for some time. Some Councillors will recall that a commonwealth referendum conducted several years ago was defeated.

City of Swan recommendation:

The recommendation be supported.

2. COST SHIFTING

2.1 Recommendation 4

The Committee recommends that, when developing Federal-State inter-governmental agreements, the Federal government consider:

- including representation from local government during negotiations; and
- requiring a commitment from State governments to identify and provide a share of payments to local government when it is seen as having a significant role in delivery of programs under the agreement (paragraph 3.95).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported. The inclusion of local government in relevant negotiations and recognising cost impositions on local government would be an important achievement.

City of Swan recommendation:

The recommendation be supported.

2.2 Recommendation 5

The Committee recommends that, in line with the Tasmanian Partnership Agreement, Federal and State government pay rates to local government (paragraph 3.111).

Comment:

On the face of it, the action proposed in this recommendation advances the cause of local government and as a consequence is supported. The Tasmanian Partnership Agreement however, contains reciprocal arrangements whereby local government in that State is liable to pay full state taxes and charges.

City of Swan recommendation:

The recommendation be given qualified supported pending further analysis of state/local government transfer payments.

2.3 Recommendation 6

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers and Treasurers and local government representatives to develop a Federal-State inter-governmental agreement which:

- recognises cost shifting as a problem which has occurred over a number of years;
- allocates revenue to local government from the relevant level of government if responsibilities are devolved;
- addresses State restrictions on local government revenue raising such as rate capping, levies and charges and non-rateable land; and
- develops local government impact statements to identify the financial impact on local government of legislation by State and Commonwealth governments (paragraph 3.123).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported. This recommendation is an important acknowledgement that cost shifting to local government has occurred and seeks appropriate remedies.

City of Swan recommendation:

The recommendation be supported.

2.4 Recommendation 7

The Committee recommends that the Federal government consider extending ANAO's (Australian National Audit Office) powers to examine the expenditure of Federal Specific Purpose Payments to and through the States to local government (paragraph 3.128).

Comment:

The action proposed in this recommendation is not supported. It is surprising, however, that the Australian National Audit Office does not currently have the power to audit the expenditure of Federal Specific Purpose Payments to and through the States to local government.

The outcome of this Inquiry reflects an increased emphasis on recognising local government as a true partner in the system of government in Australia. Given this, there should be commensurate recognition that local government has the maturity to comply with all conditions attached to grants and rely on its own audit system rather than have imposed additional bureaucratic processes that duplicate existing processes.

City of Swan recommendation:

The recommendation not be supported for the reasons outlined above.

2.5 Recommendation 8

The Committee recommends that the Minister for Finance issue a direction to all Federal agencies to ensure that all renegotiated and future Federal-State SPP (Special Purpose Payment) agreements:

- describe clear Federal government objectives and measurable outcomes;
- specify performance indicators that are directly linked to the objectives to ensure financial accountability;
- define the roles and responsibilities of each party to the agreement;
- require State governments to report on the volume of funds to be distributed to local government to perform functions; and
- disclose the funding adjustments to be applied to State governments in the case of cost shifting to local government (paragraph 3.135).

Comment:

The action proposed in this recommendation is supported as increased scrutiny of funds channelled through state government to local government and recognition of funds allocated to local government will mean more open and accountable government. The support is conditional on the contents of the agreements being mutually agreed.

City of Swan recommendation:

The recommendation be supported.

3. INFRASTRUCTURE

3.1 Recommendation 9

The Committee recommends that local government bodies be required to audit the state of their infrastructure (using a nationally accepted methodology) and provide status reports to the Commonwealth Grants Commission as one of the inputs into the needs based formula for Federal FAGs (Financial Assistance Grants) to local government.

- The infrastructure data collected should be used to adjust FAGs where councils are found to be negligent in managing infrastructure (paragraph 4.29).

Comment:

The action proposed in this recommendation is consistent with a national drive to establish a common methodology to measure the condition of road infrastructure and as a consequence is supported. The principle that councils' grants are reduced if it is found that they are not spending sufficient funds on their road infrastructure is also supported.

City of Swan recommendation:

The recommendation be supported.

3.2 Recommendation 10

The Committee recommends that SPP's (Special Purpose Payments) directed to local government, such as roads, should be conditional on States not reducing their effort (paragraph 4.51).

Comment:

The action proposed in this recommendation is supported on the basis that it is only reasonable that state funds are not reduced if local government receives federal specific purpose payments. The recommendation is seeking to avoid the current situation whereby the WA State Government has reduced road funding to local government because the Federal government has allocated road funds direct to local government through the *Roads to Recovery* program.

City of Swan recommendation:

The recommendation be supported.

4. CAPACITY BUILDING

4.1 Recommendation 11

The Committee recommends that the Local Government and Planning Ministers' Council establish a body along the lines of the UK IDeA to address capacity building. This body should also oversee the Federal and State governments' best practice awards (paragraph 5.19).

Comment:

The two actions proposed in this recommendation can be given qualified support. Certainly capacity building of local government is an increasingly important issue but whether a body like the UK IDeA is the most appropriate vehicle to advance this proposal is unclear. Perhaps further research on the options available should be conducted initially.

The concept of the best practice awards is supported and a re-location from the Federal Department of Local Government has been mooted for some time. One of the issues is that employees of the Department are so removed from local government service delivery and their knowledge is generally restricted to theoretical concepts rather than "hands on" experience.

City of Swan recommendation:

The Committee be advised of the City's response to recommendation 11 as detailed above.

4.2 Recommendation 12

The Committee recommends that the Federal government establish a Local Government Liaison Unit to:

- liaise with State Departments of Local Government and local government peak bodies to strengthen Federal/State/local relations;
- provide the contact point and conduit for local government at the Federal level and provide information on new Federal initiatives, policies and programs;
- receive feedback on the performance of Federal programs and any cost shifting occurrences; and
- co-ordinate periodic strategic meetings and policy briefings for a Federal and Local Government Officers' Forum and other interested parties as required (paragraph 5.26).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported.

City of Swan recommendation:

The recommendation be supported.

4.3 Recommendation 13

The Committee recommends that the Commonwealth Grants Commission, in consultation with the LGGCs in each State, assess the efficiencies of amalgamations or regional co-operation of local government, and use available mechanisms to adjust FAGs for the benefit of the sector at large.

- To facilitate amalgamations, where appropriate, councils should not be financially penalised through a net loss of FAGs payments for four years (paragraph 5.67).

Comment:

The action proposed in this recommendation proposing increased consultation between State and Federal grants commissions is supported. If assistance can be provided to encourage amalgamations where efficiencies are proven then local government and its residents will benefit. It is agreed that where amalgamations occur those affected councils should not be financially penalised through a net loss of grant payments for four years.

City of Swan recommendation:

The recommendation be supported.

4.4 Recommendation 14

The Committee recommends that the Federal government:

- continue to develop partnership arrangements with local government on the delivery of federal programs and service delivery; and
- as appropriate, engage established regional organisations of councils, or similar regional bodies, which have demonstrated capacity, in regional planning and service delivery (paragraph 5.89).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported provided that the contents of the agreements negotiated are mutually agreed.

City of Swan recommendation:

The recommendation be supported.

5. COMMONWEALTH FUNDING OF LOCAL GOVERNMENT

5.1 Recommendation 15

The Committee recommends that the Commonwealth, States and local governments consider what tax design improvements would be necessary to eliminate tax on tax effects arising out of GST (paragraph 6.65).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported. The administration effect of the GST on local government is considerable and an opportunity to review the impact of this tax on local government should be welcomed.

City of Swan recommendation:

The recommendation be supported.

5.2 Recommendation 16

The Committee recommends that a new methodology for the distribution of FAGs to local government be designed which incorporates the following elements:

- a national model which is consistent across each LGB (local government boundary);
- distribution of funds on equalisation principles, i.e. on the basis of need;
- funds to be paid direct to local government;
- funds to remain untied and be allocated from one pool;
- data on local conditions/factors to be provided by LGGC's (Local Government Grants Commission);
- a weighted factor be applied to indigenous community councils to ensure their level of disadvantage is taken into account;
- appropriate acquittal arrangements; and
- a new model, as presented by Professor Parish, to be designed by a Federal and Local Government Finance Advisory Group of experts and phased in over three years, with the process to be facilitated by the Commonwealth Grants Commission (paragraph 6.164).

Comment:

The action proposed in this recommendation relating to a new methodology should be given qualified support. The City has been critical of the WA Local Government Grants Commission over a number of years in not adequately recognising those councils with significant growth, those with regional centres and those who are in the outer metropolitan region. Whilst there are no guarantees, it is felt that a national approach using national standards may be more beneficial to councils like the City of Swan. Further information should be sought on the likely impact of such a change before unqualified support could be given to this recommendation.

The proposal that a new model be developed by Professor Parish is considered premature. This model is understood to reflect more of a socio-economic status as opposed to the current methodology based on needs determined locally. Before this recommendation is supported a discussion paper on the proposed new model, its features and differences to existing models should be first considered. There should be no objection to a review of the existing methodology.

City of Swan recommendation:

The Committee be advised of the City's response to recommendation 16 as detailed above..

7. THE WAY FORWARD:**7.1 Recommendation 17**

The Committee recommends that COAG host a Summit in 2005 on Inter-governmental Relations:

- to report on the implementation of the Committee's recommendations;
- to review:
 - SPPs paid to States and Territories with a view to isolating funds for direct payment to local government;
 - the relevant anomalies of ANTS;
 - the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity; and
 - successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;
- to determine processes to develop:
 - methods to resolve duplication and overlap of service provision;
 - a fully responsible financial role for local government free from policies that arbitrarily limit revenue raising capacity from their normal sources;
 - a direct financial relationship between the Commonwealth and local government;
 - a national methodology for local government bodies to evaluate their infrastructure needs and requirements; and
 - a set of principles to reduce cost shifting and unfunded mandates and to ensure that Commonwealth and State and Territory responsibilities administered by local government are adequately funded (paragraph 7.19).

Comment:

The action proposed in this recommendation can only further advance the cause of local government and as a consequence is supported.

City of Swan recommendation:

The recommendation be supported.

7.2 Recommendation 18

The Committee recommends that the Federal Treasurer assume responsibility for the financial relationship with local government (paragraph 7.20).

Comment:

It is presumed that the action proposed in this recommendation relates to the functional responsibility for local government at a Federal level - at least as far as payments to local government is concerned. As the Federal Treasurer holds the purse strings, it enables local

government to be elevated into the mainstream of the political hierarchy of the Federal government and, as a consequence, is supported.

City of Swan recommendation:

The recommendation be supported.