

DEPARTMENT OF TRANSPORT AND REGIONAL SERVICES

SUBMISSION TO INQUIRY INTO LOCAL GOVERNMENT BY THE
HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

JULY 2002

DISCLAIMER

The views contained in this Submission are those of the Department of Transport and Regional Services (DOTARS) and do not necessarily reflect the views of the Federal Government, the Minister for Transport and Regional Services or the Minister for Regional Services, Territories and Local Government.

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INTRODUCTION

While constitutional responsibility for local government lies with the States and Territories, the Federal Government nevertheless has a significant role and interest in local government, including providing it with financial assistance. In 2002-03, councils will receive an estimated \$1.449 billion in financial assistance grants from the Federal Government.

The Department of Transport and Regional Services (DOTARS) has a role in managing the Federal Government's local government responsibilities and providing advice to the Federal Minister for Regional Services, Territories and Local Government on a range of local government issues. As such, it is well placed to provide a national perspective on issues facing the local government sector.

DOTARS is responsible for administering the financial assistance grants which are provided under the *Local Government (Financial Assistance) Act 1995*. It also administers the *Roads to Recovery Act 2000*.

As part of the accountability arrangements for the financial assistance grants, each year the Minister tables the *Local Government National Report* in the Federal Parliament. The *National Report* details the grants allocated to each local government authority and explains the methods by which the grants were determined. The report also looks at the efficiency and effectiveness with which local government provides services to the 723 local government areas in Australia.

DOTARS provides secretariat support for the new Local Government and Planning Ministers' Council which was formed as part of the Council of Australian Governments (COAG) decision in June 2001.

It also manages the National Awards for Local Government, which recognise ingenuity, resourcefulness and self-reliance and highlight the work being undertaken by local government in communities across Australia to improve business practice within councils and service delivery to their communities. Through the associated Leading Practice Guide and Leading Practice Seminars, councils share practical information about leading practice in the local government sector.

DOTARS is also responsible for identifying and articulating local government's role and interests in Federal transport and regional policies. It works closely with other Federal agencies such as Environment Australia in relation to local government's involvement in key Commonwealth programmes that impact on local government such as the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust.

In fulfilling these responsibilities, DOTARS works closely with local government associations, particularly the Australian Local Government Association (ALGA) and Local Government Managers Australia (LGMA).

The submission aims to provide the Inquiry with background information on key issues arising from the Terms of Reference, particularly as they relate to DOTARS'

responsibilities and interests. DOTARS envisages that it will be providing further submissions and research papers as the Inquiry progresses.

TOR 1 Local Government's Current Roles and Responsibilities

This section looks at the broad context in which local government is operating and some of the main forces impacting on local government. It identifies key characteristics of local government in Australia which are relevant to discussing local government's role and its financial position. It provides details of local government's current roles and responsibilities and highlights the ways in which these have changed over recent decades.

1.1 Pressures on Local Government to Change

Local communities, particularly those in regional areas, have experienced a period of rapid and unprecedented change in the last two decades. Much of this pressure to change has also been felt by local government. The last quarter of the twentieth century saw a significant expansion in local government's role, with many councils moving well beyond the traditional focus on 'roads, rates, and rubbish' to the delivery of a wide range of economic, social and environmental services.

Globalisation, deregulation, competition policy, environmental sustainability, technological change, demographic and population shifts, industrial relations reform, privatisation of public utilities and devolution of functions have all had an impact on local government. Local government reform programmes, implemented by some State Governments, have also brought about extensive changes to the structure and operations of councils across Australia.

1.1.1 Local Government Reform

In the last ten years, all States have reviewed their local government legislation. State Government reform programmes have varied in their focus and their intensity. Key aspects of reform programmes (based on Wensing, 1997, p. 36) have included:

- Reduction in the numbers of councils;
- Giving local governments broad competency powers allowing them more freedom to manage their affairs with less prescription by State Governments;
- A separation of policy and administration;
- The role of elected councillors has been defined more clearly – new requirements applying to councillors include increased consultation with constituents, increased responsibility for performance and a focus on vision and strategic planning;
- In some States, councils have been required to adopt private sector business approaches, including competitive tendering/contracting out services; and
- Increased accountability and reporting requirements.

Some States have taken a more interventionist approach than others. For example, in the 1990s, Victoria pursued a modernisation strategy involving dismissal of councils and appointment of commissioners, compulsory amalgamation, compulsory competitive tendering of 50% of council services and 20% mandated rate cuts. It has since adopted a 'Best Value' approach. South Australia, on the other hand, pursued a

strategy involving modernisation of laws governing the operations of local government, voluntary amalgamation and functional reform.

While not willingly embraced by all, local government reform has seen some major changes in local government management over the past decade and has created an environment for, and expectation of, greater professional management in local government.

Changes in the structure and operations of local government bodies across Australia will continue as States implement local government reform programmes and community aspirations and expectations grow.

1.1.2 Changing Community Expectations

Changing community expectations of government are another major factor leading to increased demands on local government. In a 1996 paper prepared for the then Department of Environment, Sport and Territories, Caddick focussed on key local government issues requiring further research over the next five years and described the following 'community agenda' for local government in the late 1990s (p. 15):

- Lifestyle and living standards;
- Seamless services, with minimal red tape;
- Affordable services and facilities;
- Protection of local amenity and natural landscape;
- Sense of belonging and local identification; and
- Opportunity to influence government decision-making when personal lifestyle is, or will be, threatened.

Similarly, the Australian Local Government Association (ALGA) in its *National Agenda 2001* (p. 2) has described the challenges for local communities in the following terms:

- Maintaining the quality of community life and community cohesion whilst coping with far-reaching economic, social and institutional change;
- Ensuring adequate services and safeguarding environmental quality, especially in areas of rapid growth or economic decline;
- Promoting soundly-based local and regional economies, and ecologically sustainable development;
- Making more efficient and effective use of resources against a background of severe financial constraints on all spheres of Government;
- Bringing about social justice and reconciliation with Australia's indigenous peoples; and

- Bringing about gender equity.

1.1.3 Effect of Changes

The effects of these changes are that:

- Local government is now providing a wider range of services and taking on a greater role than ever before in economic and social development and environmental sustainability;
- As result, the capacity of local government to provide quality services has a direct bearing on most Australians' standard of living; and
- In order to meet community expectations, Australia's 723 local government bodies are continually having to improve their service delivery and their role as advocates and leaders of communities.

All spheres of government face these kinds of challenges to some extent. However, it is arguable that local government experiences greater direct pressure than the other spheres, due to its proximity to communities. Accordingly, the onus remains on local government to respond as efficiently and effectively as possible to the changing circumstances in which it operates.

1.2 Key Characteristics of Local Government

1.2.1 Size of the Sector

Local government in Australia plays a small but significant role in the Australian economy. In 2000–01, local government had a revenue of nearly \$17 billion, with about 38 per cent of its income derived from taxes (mainly rates), about 32 per cent from sale of goods and services, about 13 per cent from grants and subsidies, 2 per cent from interest and 15 per cent from other sources. Local government manages land and fixed assets worth \$147 billion (source ABS Cat. 5512.0, 2000-01). It employs close to 140,000 people in 723 local governing bodies (including approximately 100 Indigenous or other community bodies).

1.2.2 Constitutional Basis for Local Government

The institutional framework for local government and local government's structure and functions are quite different to those in other countries. Local government is not recognised in the Australian Constitution. Constitutional responsibility for local government lies with States and Territories, which provide the legal framework for councils' operations. As a result, there are significant differences in the responsibilities of councils across Australia and in the State systems for overseeing them and the services they deliver. Indigenous councils also are established under different models in different States.

1.2.3 Diversity

One of the most striking characteristics of Australia's 723 local governing bodies is their diversity. There are significant variations in responsibilities between local

governments in different Australian States. For example, local government in Queensland, rural New South Wales and Tasmania has responsibility for water and sewerage – unlike local government in the other States. Local government in the Northern Territory does not have responsibility for planning; the responsibility remains with the Territory government.

Other areas of significant difference include:

- Size of population (from 145 to over 833,000) and area represented (from 2 square kilometres to 378,533 square kilometres);
- Councils' fiscal position (including wide disparity in revenue-raising capacity), resources and skills base;
- Differing physical, economic, social and cultural environments of local government areas (for example road lengths from 9 kilometres to 5,427 kilometres);
- Differing attitudes and aspirations of local communities;
- Structures of power and influence within local communities; and
- The varying State legislative frameworks within which councils operate, including voting rights and electoral systems.

Table 1.1 gives some flavour of this diversity, showing, for a selection of councils, the range of areas and income from rates.

Table 1.1: Characteristics of Selected Councils, 2000-01

Council	State	Classification	Population	Area (sq km)	Road length (km)	Rate income (\$)	Rate income (\$/capita)
Monash	Vic	Metropolitan developed	162,577	82	651	37,568,000	231.08
East Fremantle	WA	Metropolitan developed	6,649	3	36	4,019,050	604.46
Gosford City	NSW	Urban fringe	158,172	1,028	1,034	87,576,473	553.68
Adelaide Hills	SA	Urban fringe	38,778	796	1,110	11,055,000	285.08
East Gippsland	Vic	Regional town	39,352	20,946	3,289	17,185,000	436.70
Glenorchy	Tas	Regional town	43,860	2,522	290	28,298,829	645.21
Roxby Downs	SA	Regional town	4,063	110	34	1,020,000	251.05
Surf Coast	Vic	Rural growth	19,226	1,554	949	10,595,000	551.08
Busselton	WA	Rural growth	21,568	1,454	955	7,040,816	326.45
Buloke	Vic	Rural agricultural	7,526	8,002	5,427	3,987,000	529.76
Bogan Shire	NSW	Rural agricultural	3,252	14,610	1,410	2,418,962	743.84
Central Darling Shire	NSW	Remote	2,396	51,395	1,602	503,004	209.93
Murchison	WA	Remote	145	43,800	1,721	67,870	468.07

Source: Derived from State Grants Commission unpublished data and the Australian Local Government Guide 30th edition March–July 2001, from DOTARS National Report.

1.3 Local Government's Current Role and Functions

State legislation provides few limits on what services local government can provide. In broad terms, local government has a number of roles:

- A governance role;
- An advocacy role;
- A service delivery role;
- A planning and community development role; and
- A regulatory role.

Councils conduct business and provide services according to local needs and the requirements of the various local government Acts. Examples of local government functions and services include:

- Engineering (public works design, construction and maintenance – eg. roads, bridges, footpaths, drainage, cleaning, waste collection and management);
- Recreation (golf courses, swimming pools, sports courts, recreation centres, halls, kiosks, camping grounds and caravan parks);
- Health (water sampling, food sampling, immunisation, toilets, noise control, meat inspection and animal control);
- Community services (child care, elderly care and accommodation, refuge facilities, meals on wheels, counselling and welfare);
- Building (inspection, licensing, certification and enforcement);
- Planning and development approval;
- Administration (aerodromes, quarries, cemeteries, parking stations and street parking);
- Cultural/educational (libraries, art galleries and museums);
- In some States, water and sewerage; and
- Other (abattoirs, sale-yards, markets and group purchasing schemes).

Appendix 1 provides further information on local government's current responsibilities for roads, water, sewerage and waste infrastructure.

Unlike local governments in the UK and the USA, local government in Australia is not formally recognised as being responsible for services such as education, public housing and policing which are largely State/Territory or Commonwealth responsibilities.

The following Table, taken from a 1997 Industry Commission report, *Performance Measures for Councils – Improving Local Government Performance Indicators*, provides an indication of the range of services provided by local government in each State.

Table 1.2: Estimated Proportion of Councils Providing Each Service (per cent)^a

<i>Council services</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>
Some responsibility for inspection/licensing and regulation^b of:							
animals	100	100	100	100	74–99	n.a.	1–24
food, restaurants and eating places	74–99	100	some	100	74–99	n.a.	1–24
boarding houses	1–24	Some	some	100	50–74	n.a.	25–49
fairs/amusements	74–99	Some	some	some	25–49	n.a.	1–24
scaffolding	0	Some	n.a.	some	1–24	n.a.	0
abattoirs	1–24	0	n.a.	0	1–24	n.a.	0
vehicle licensing	0	0	some ^c	0	50–74	n.a.	1–24
vehicle load limits	74–99	0	0	some	n.a.	n.a.	1–24
taxis	0	0	0	some	0	n.a.	0
weights and measures	0	Some	n.a.	0	1–24	n.a.	0
advertising/boarding	74–99	100	some	some	50–74	n.a.	1–24
cemeteries/crematoria	50–74	Some	some	100	1–24	n.a.	1–24
childcare	0	Some	n.a.	0	1–24	n.a.	25–49
noxious weed/aquatic pests	50–74	Some	some	some	1–24	n.a.	1–24
storage/transport of dangerous goods	0	0	some	0	n.a.	n.a.	0
pool fence inspection	n.a.	n.a.	n.a.	n.a.	74–99	n.a.	0
sewerage	50–74	0	some	100	n.a.	n.a.	50–74
water pollution	74–99	0	some	some	25–49	n.a.	0
air pollution	74–99	0	some	some	1–24	n.a.	0
incinerators	74–99	100	some	some	n.a.	n.a.	0
building regulation	100	100	100	100	74–99	n.a.	0
building inspection	100	>74	>74	some	74–99	>74	0
subdivision	100	100	100	100	74–99	n.a.	0
zoning/planning	100	100	100	100	74–99	n.a.	0
Community services							
cemeteries/morgues	50–74	25–49	>74	50–74	1–24	50–74	1–24
home help	1–24	>74	<25	some	25–49	<25	25–49
home nursing	1–24	Some	n.a.	some	25–49	n.a.	1–24
meals on wheels	1–24	>74	<25	<25	1–24	<25	25–49
refuges/hostels	1–24	<25	25–49	<25	1–24	<25	1–24
senior citizen centres	50–74	>74	<25	some	25–49	25–49	1–24
social work	1–24	25–49	n.a.	<25	1–24	<25	50–74
aged and disabled housing	1–24	<25	25–49	<25	25–49	<25	1–24
public housing	25–49	1–24	25–49	25–49	25–49	25–49	50–74
childcare centres	25–49	50–74	<25	<25	1–24	25–49	50–74
pre-schools	1–24	50–74	<25	<25	1–24	<25	0
security patrols	n.a.	n.a.	n.a.	n.a.	1–24	n.a.	0
fire prevention and fire fighting	74–99	>74	<25	>74	74–99	25–49	1–24
civil defence/emergency	74–99	Some	n.a.	some	74–99	n.a.	1–24
Health services							
ambulance	0	0	n.a.	0	1–24	n.a.	1–24
dental clinics	1–24	Some	n.a.	some	1–24	n.a.	0
health centres	25–49	25–49	<25	some	25–49	<25	1–24
hospitals/doctor	0	0	n.a.	some	1–24	n.a.	0
immunisation.	50–74	Some	some	some	74–99	n.a.	0
infectious disease	1–24	Some	n.a.	all	74–99	n.a.	0

<i>Council services</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>
control							
Recreation and culture							
sporting clubs	1–24	Some	n.a.	some	50–74	n.a.	0
museums and art galleries	25–49	25–49	some	<25	25–49	<25	0
caravan /camping grounds	25–49	50–74	50–74	25–49	25–49	50–74	1–24
parks and gardens	74–99	>74	>74	>74	>74	>74	100
swimming pools /recreation	74–99	>74	>74	25–49	74–99	>74	25–49
community halls/centres	74–99	>74	<25	some	74–99	n.a.	50–74
libraries	100	>74	>74	>74	74–99	<25	25–49
preservation of historic places	50–74	Some	n.a.	some	74–99	n.a.	1–24
theatres	1–24	<25	<25	<25	1–24	<25	0
festivals	n.a.	Some	n.a.	n.a.	74–99	n.a.	0
citizenship and other civic ceremonies	n.a.	n.a.	n.a.	100	n.a.	n.a.	n.a.
Environment							
environmental protection	100	100	some	100	25–49	n.a.	1–24
foreshores.	25–49	Some	some	some	25–49	n.a.	1–24
Other services							
household garbage	74–99	100	100	>74	74–99	>74	74–99
other garbage collection	50–74	100	50–74	25–49	74–99	<25	1–24
recycling	50–74	>74	50–74	50–74	50–74	>75	1–24
dump/incinerator	50–74	50–74	50–74	50–74	50–74	>74	100
street cleaning	74–99	>74	some	some	50–74	n.a.	1–24
sewerage	50–74	25–49	>74	25–49	1–24	>74	50–74
septic tank approvals	n.a.	n.a.	n.a.	n.a.	74–99	n.a.	n.a.
public conveniences	74–99	>74	>74	>74	74–99	>74	50–74
water supply	50–74	0	>74	<25	1–24	n.a.	50–74
stormwater drainage	74–99	>74	>74	>74	74–99	>74	25–49
flood prevention	74–99	100	some	some	74–99	n.a.	1–24
street lighting	74–99	Some	n.a.	some	74–99	n.a.	50–74
roads and bridges, foot and cycle paths	100	>74	100 a	>74	100	>74	100
traffic control	100	100	some	some	74–99	n.a.	25–49
car parking	74–99	<25	<25	<25	1–24	<25	1–24
parking meters	1–24	<25	<25	<25	1–24	<25	0
animal pounds	50–74	Some	some	some	50–74	n.a.	1–24
tourist development	74–99	100	some	some	1–24	n.a.	1–24
abattoirs	1–24	0	<25	<25	1–24	n.a.	1–24
markets/ saleyards	25–49	25–49	<25	<25	1–24	n.a.	1–24
electricity	0	0	<25	<25	1–24	<25	50–74
gas supply	1–24	0	<25	<25	1–24	<25	1–24
gravel/quarries	25–49	25–49	25–49	<25	1–24	n.a.	1–24
plant nurseries	1–24	<25	<25	<25	1–24	n.a.	25–49
aerodromes	25–49	25–49	25–49	25–49	25–49	<25	50–74
public transport	1–24	<25	<25	<25	1–24	<25	1–24
wharves	25–49	0	some	n.a.	0	n.a.	0
barge landings	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1–24
school holidays recreational programs	n.a.	Some	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

- a These estimates are derived from a range of sources, of varying precision and reliability. They illustrate the degree of similarity and the extent of differences in the activities undertaken by local government. Caution should be used in interpreting this information for other purposes which require more robust estimates.

- b The scope of regulation varies from state to state. For example, although all councils in South Australia regulate dogs, they have discretionary powers with other animals. In addition, while all councils may have responsibility for inspection and regulation of an activity, that activity may not be undertaken in every local area. For example, not all councils have boarding houses in their area.
- c Licence to carry water only
- d Roads only
- n.a. Not available

Source: Industry Commission Performance Measures for Councils – Improving Local Government Performance Indicators, 1997, pp. 89-93.

1.4 Changes in Local Government’s Functions and Responsibilities

The Commonwealth Grants Commission (CGC) 2001 *Review of the Operation of the Local Government (Financial Assistance) Act 1995* (the CGC Review) examined the question of whether local government’s functions and responsibilities have increased over time. According to the CGC (p. 52), these changes were said to have resulted from:

- (i) *devolution* — where another sphere of government gives local government responsibility for new functions;
- (ii) *‘raising the bar’* — where another sphere of government, through legislative or other changes, increases the complexity of or standard at which a local government service must be provided, and hence increases its cost;
- (iii) *cost shifting* — where there were two types of behaviour. The first is where local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service. The second is where, for whatever reason, another sphere of government ceases to provide a service and local government steps in;
- (iv) *increased community expectations* — where the community demands improvements in existing local government services; and
- (v) *policy choice* — where individual local government bodies choose to expand their service provision.

The CGC noted (p. 53) that local government indicated that these changes in responsibility were occurring at an increasing rate and were not being matched by an increase in funding or in appropriate access to additional revenue.

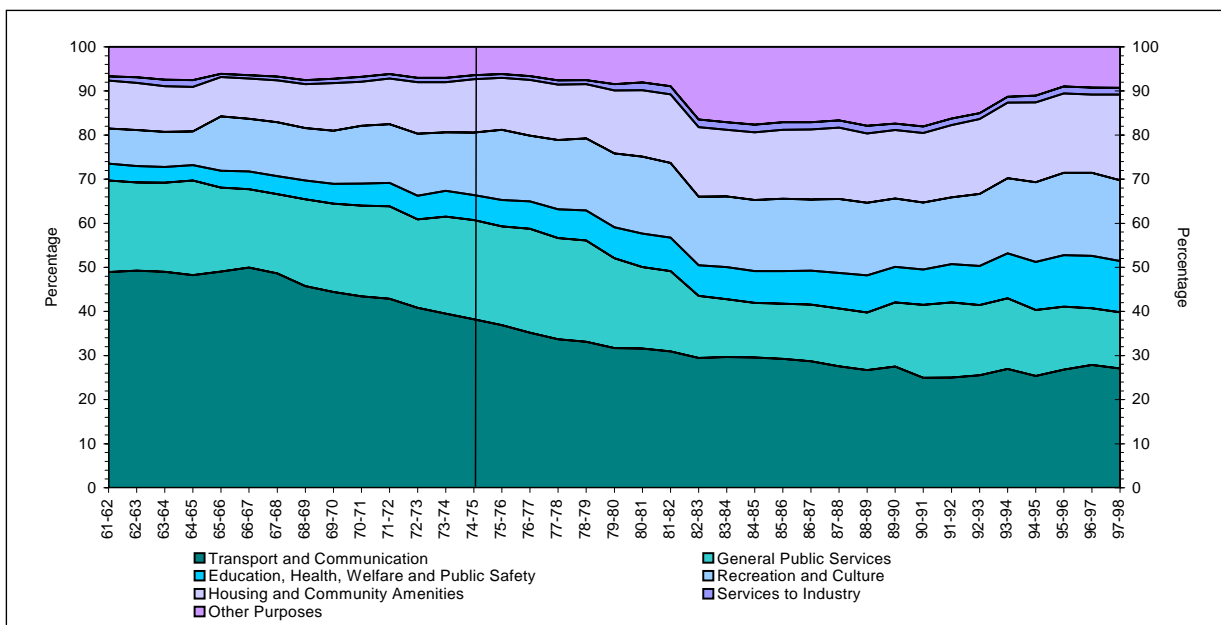
The CGC’s analysis of local government expenditure over the period 1961–62 to 1997–98 indicated there have been substantial changes in the composition of local government expenditure over this period. The CGC (p. 53) found that some of the significant changes were:

- (i) a move away from property-based services to human services;

- (ii) a decline in the relative importance of road expenditure (although it remains the largest function, its level of importance has declined from about half of total expenditure in the 1960s to a little more than a quarter in the 1990s);
- (iii) an increase in the relative importance of Recreation and Culture, and Housing and Community Amenities (these are now large areas of local government expenditure, each approaching 20 per cent of total); and
- (iv) an expansion of Education, Health, Welfare and Public Safety services (this has increased from 4 per cent of total expenditure in 1961–62 to about 12 per cent in 1997–98).

These changes are further illustrated in Figure 1.1, taken from the CGC Review (p. 54)

Figure 1.1: Composition of Local Government Expenditure, 1961-62 to 1997-98



Source: CGC Review p. 54

The CGC concluded (p. 54) that this analysis shows that:

at the national level:

- the composition of services provided by local government has changed markedly over the last 30 to 35 years; and
- local government is increasingly providing human services (social welfare type services) at the expense of its traditional property-based services (particularly roads).
- It also noted that there are broadly similar findings at State level for each State. Further detail can be found in Chapter 16 of the Working Papers for the CGC Review.

1.5 Conclusion

This section has described some of the key features of local government in Australia and the significant role it plays in Australia's system of government. Local government's widespread geographical presence, the range of powers it exercises, the diversity of services it provides, and its strong community links means it has a direct impact on the living standards of Australians.

For the purposes of the Inquiry, DOTARS considers that the key issues in relation to local government's role and responsibilities are that:

- Local government is in a strong position to determine, and advocate, the needs of local communities;
- There is no standard definition of 'core' local government services any more as Table 1.2 demonstrates;
- Local government is now delivering a broader range of services than ever before;
- Local government is shifting its focus from 'hard' infrastructure provision to a greater relative importance of spending on social services such as health, welfare, safety and community amenities; and
- Demands on local government to deliver an expanded range of social services vary across Australia and councils' capacity to deliver is dependent on a range of local factors such as their revenue base, the community's capacity to pay and the capacity of the council to deliver quality services.

Accordingly, the funding arrangements for local government need to be sufficiently flexible to meet the changing needs of councils and communities in the future.

TOR 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

This section provides information on the funding arrangements for local government in Australia. It describes local government's funding mix (Commonwealth, State and own source revenue), including trends in changes to that funding mix; and discusses the issue of utilisation of alternative funding sources by local government.

Appendix 2 contains information on the Federal Government's local government financial assistance grants. Appendix 3 provides information on the Federal Government's *Roads to Recovery Programme*.

2.1 Local Government Share of Taxation Revenue

In Australia, each of the three levels of Government has its own revenue raising powers and expenditure responsibilities. In the CGC Review (CGC, 2001, Working Papers, p. 166) the CGC noted that:

- The Commonwealth has the largest own-source revenues and own-purpose outlays, and local government the smallest;
- The Commonwealth's own-source revenue exceeds its own-purpose outlays; and
- The State and local governments' own-purpose outlays exceed their own-source revenue.

In 2000-01, the Federal Government raised \$175 billion in taxes representing 81.9 per cent of taxation revenue. At the same time, the States and Territories raised \$32.4 billion representing 15.2 per cent of taxation revenue, mostly from payroll taxes, financial transactions and the use of goods. Local government's share of taxation revenue was \$6.3 billion or 3 per cent and this was all raised from land rates.

2.2 Commonwealth Funding to Local Government

The Commonwealth Government provides considerable financial assistance to local government through the local government financial assistance grants, specific purpose payments (SPPs) and direct programme funding.

2.2.1 Local Government Financial Assistance Grants

The Commonwealth provides very substantial funding for local governments through the local government financial assistance grants. In 2002-03 it is estimated that the financial assistance grants will be \$1.449 billion. These grants are administered through the *Local Government (Financial Assistance) Act 1995*. Appendix 2 provides details about the current funding arrangements. TOR 6 addresses the findings of the CGC Review and provides a discussion of some of the key issues in relation to the financial assistance grants.

2.2.2 Specific Purpose Payments

In 2000–01 the Commonwealth provided tied funding to local government through SPPs totalling over \$111 million (see Table 2.1). This assistance recognises the work of local government in providing such services as child care, aged care, care for the disabled, natural disaster relief and for local roads. Of the total specific purpose payments made, more than \$45 million was provided to ensure affordable quality childcare and more than \$21 million to help local government provide access to residential and other care services for the elderly.

Table 2.1: Specific Purpose Payments to Local Government, 2000–01 (\$'000)

	NSW	Vic	Qld	WA	SA	Tas	NT	Total ¹
Direct payments current								
Aged care services	5,804	8,958	1,418	3,015	1,321	818	255	21,589
Children's services	14,879	17,860	5,306	3,366	857	1,975	1,004	45,247
Local Government Incentive Programme ²	795	665	738	399	482	295	334	3,709
Road to Recovery programme	8,262	8,988	8,362	5,295	1,969	584	201	33,661
Total current	29,740	36,471	15,824	12,075	4,629	3,672	1,794	104,206
Direct payments capital								
Aged care services	–	262	63	–				325
Disability services	295	355	105	67	17	39	20	898
Upgrade of Rockhampton airport runway			6,000					6,000
Total capital	295	617	6,168	67	17	39	20	7,223
Total direct payments	30,035	37,088	21,992	12,142	4,646	3,711	1,814	111,429

Notes:

(1) Includes the Australian Capital Territory

(2) Excludes the Local Government Development Programme

Source: 2000–01 Final Budget Outcome, Department of Finance and Administrative Affairs, Table 30 and 2000–01 Department of Transport and Regional Services Annual Report.

2.2.3 Direct Programme Funding

Local government is also eligible to receive and apply for funding from a wide range of Commonwealth Government programmes, such as the Black Spot Programme; Regional Solutions Programme; Local Government Online (part of Networking the Nation); and the Rural Transaction Centres Programme. Local government projects make up 33 per cent of all projects funded under DOTARS regional programmes.

Information about the extensive range of Commonwealth funding programmes can be found at www.grantslink.com.au

2.3 State and Territory Funding to Local Government

Table 2.2 provides details of grants from the States to local government by type of service in 1999–2000. Due to the fact that the Commonwealth financial assistance grants are paid via the States, the grants amounts shown in the Table include some

\$1.24 billion paid through the State by the Commonwealth in local government financial assistance grants in 1999–2000. Part of the grants for some of the purposes listed may also have originated from the Commonwealth in the form of SPPs which are passed onto local government by the States.

While the focus of State grants varies significantly from State to State and from year to year, the major purpose remains transport and communications, with the exception of Victoria and the Northern Territory. Another major focus for 1999–2000 for most States, with the exception of Western Australia and Tasmania, was housing and community amenities.

Table 2.2: Grants from States to Local Governments, by Purpose, 1999–2000 (\$m)

Purpose	NSW	Vic	Qld	WA	SA	Tas	NT	Total
General public services	2	5	5	–	–	–	8	20
Public order and safety	63	–	2	–	–	–	–	65
Health	–	–	6	–	–	–	4	10
Social security and welfare	–	–	5	–	–	–	1	6
Housing and community amenities	118	312	465	–	5	–	–	900
Recreation and culture	23	59	34	–	10	–	2	128
Agriculture, forestry and fishing	7	–	6	–	–	–	–	13
Transport and communication	150	–	137	209	23	30	–	549
Other economic affairs	2	3	1	–	–	–	–	6
Other	305	–	246	85	69	28	30	763
Total	670	379	907	294	107	58	45	2,460
<i>Less Commonwealth financial assistance grants</i>								
General purpose grants	298	219	163	86	70	22	9	866
Local road funding	113	81	73	60	21	21	9	378
Net State grants	259	80	671	148	16	15	27	1,216

Source: Australian Bureau of Statistics unpublished data, Department of Transport and Regional Services data, from DOTARS Local Government National Report 2000-01.

The information suggests that, once the financial assistance grants are subtracted, the States provided some \$1.22 billion to local government out of their own funds representing an increase of 54 per cent over the previous year. However the majority of this increase is the result of increased grants from the Victorian and Queensland governments to housing and community amenities. Queensland funding for this purpose is up from \$71 million in 1998–99 to \$465 million and Victorian funding is up from \$9 million to \$312 million. At the same time, Victoria recorded a large reduction in funding designated for other purposes from \$293 million in 1998–99 to nil in 1999–2000.

2.4 Local Government Own Source Revenue

Most local councils derive the majority of their revenue from property rates. Other sources of income generated by councils include charges for garbage services, public services, recreational, cultural amenities and charges associated with development activities.

In 2000-01, local government received an average of 38 per cent of its revenue from taxes (rates) and 32 per cent from the sale of goods and services. On average, for 2000-01, 13 per cent of council revenue was from grants, including financial assistance grants.

Table 2.3: Local Government Revenue Sources, 2000–2001 (\$m)

	NSW	Vic	Qld	WA	SA	Tas	NT	Total
Taxation Revenue	2,176	1,543	1,248	669	545	164	43	6,388
(%)	(37.7)	(45.1)	(26.9)	(44.2)	(57.4)	(35.3)	(26.7)	(37.7)
Sale of goods and services	1,880	692	2,074	355	193	191	47	5433
(%)	(32.5)	(20.2)	(44.7)	(23.5)	(20.3)	(41.1)	(29.2)	(32.1)
Interest	217	55	84	44	19	10	3	433
(%)	(3.8)	(1.6)	(1.8)	(2.9)	(2.0)	(2.2)	(1.9)	(2.6)
Grants and subsidies	553	598	473	284	130	68	41	2147
(%)	(9.6)	(17.5)	(10.2)	(18.8)	(13.7)	(14.6)	(25.5)	(12.7)
Other revenue*	953	532	764	161	62	32	26	2530
(%)	(16.5)	(15.6)	(16.5)	(10.6)	(6.5)	(6.9)	(16.1)	(14.9)
Total	5,779	3,419	4,644	1,513	949	465	161	16,930

Note: Australian Bureau of Statistics advise that almost 30 per cent of *other revenue comprised revenue from capital grants plus almost 20 per cent assets acquired below fair value. Half of the *other revenue was from fees for transport, water supply and sanitation.

Source: Australian Bureau of Statistics Government Finance Statistics, Cat no 5512.0, Table 28.

Revenue raised by local government from taxation (predominantly rates) varied from around the average of 37 per cent of total local government revenue for most States to a maximum of 57 per cent for South Australia and a minimum of 26 per cent for the Northern Territory. Revenue from grants was close to the average of 12 per cent for all States except the Northern Territory where councils received an average of 25 per cent of their revenue from grants (see Table 2.3).

Local government received a significant proportion of revenue from the sale of goods and services. It represents on average close to a third of council revenue, with Tasmania and Queensland receiving more than 40 per cent of their revenue from these sources. This may be because, in those States, local government has responsibility for provision of water and sewerage services.

On average, interest did not represent a significant proportion of council revenue, whilst revenue from other sources contributed 15 per cent of local government income. The proportion of revenue from other sources ranged from 6 per cent in

South Australia and Tasmania to 16 per cent in a number of States. Other revenue is derived from capital grants, current revenue, capital revenue and fines.

The circumstances of individual councils do, however, vary considerably from the national average. While indications of these variations can be obtained from the State and Territory data in Table 2.3, it should be noted that significant variations exist between councils within each State and in the Northern Territory.

As shown in Table 2.4, on a per capita basis, taxation (rates) revenue remained relatively close to the national average of \$340 per person in all States. This picture, ie virtually equal per capita taxes across States, has remained constant for a number of years. The Northern Territory had the lowest taxation revenue per capita of \$221 whilst South Australia had the highest per capita taxation revenue for local government with \$364 per person. Victoria had the second lowest taxation revenue per capita of \$326. The result for Victoria is probably a result of mandated cuts in rates imposed by the State Government in the mid 1990s.

Table 2.4: Local Government Revenue Sources, \$ Per Capita, 2000–2001

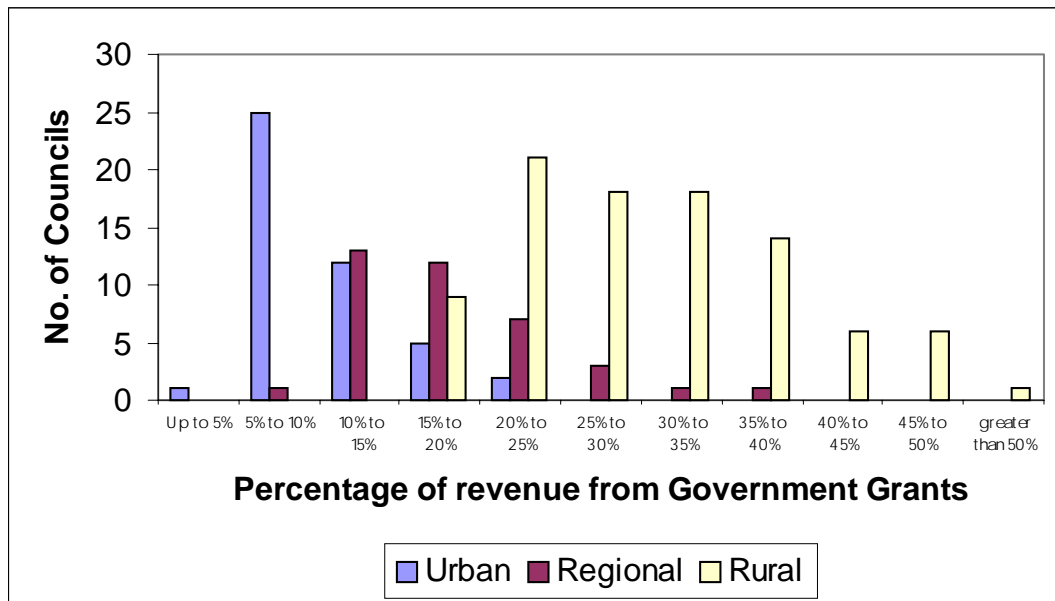
	NSW	Vic	Qld	WA	SA	Tas	NT	Average
Taxation Revenue	338.23	325.75	352.91	357.56	364.25	348.38	221.31	340.90
Sale of goods and services	292.22	146.09	586.49	189.74	128.99	405.74	241.90	289.93
Interest	33.73	11.61	23.75	23.52	12.70	21.24	15.44	23.11
Grants and subsidies	85.96	126.25	133.76	151.79	86.89	144.45	211.02	114.57
Other revenue	148.13	112.31	216.04	86.05	41.44	67.98	133.82	135.01
Total	898.26	721.81	1,313.23	808.65	634.27	987.79	828.63	903.47

Source: Australian Bureau of Statistics, Government Finance Statistics, Cat no 5512.0, Table 28

2.4.1 Differences in Councils' Revenue-Raising Capacity and Reliance on Grants

There is a wide disparity in councils' ability to raise their own revenue, due to differences between urban, rural and remote councils in the rating base and ability to levy user charges as well as the cost of providing council services. In some rural and remote areas, the Commonwealth local government financial assistance grant can constitute more than 50 per cent of the council's total revenue. In general, urban councils have the greatest financial autonomy, followed by regional councils and then rural councils. Remote councils generally have less financial autonomy than the other categories. The differences in New South Wales councils revenue-raising capacity are illustrated in Figure 2.1.

Figure 2.1: Distribution of the Proportion of Revenue from Government Grants for NSW Councils 1999-2000



Source: NSW Department of Local Government, Comparative Information on New South Wales Local Government Councils 1999-2000.

Daly's 'Challenges for Local Government in the 21st Century' in *Land of Discontent* states (Daly, 2000, p. 212).

There is a complex relationship between population, the economic base, and a councils ability to generate additional income sources beyond rates and grants... Councils that generate enhanced income flow, are more likely to be more competitive.

Clearly, substantial rate income can be generated in areas where property values are high, and in these areas, councils will be much less reliant on grants, particularly the financial assistance grants.

2.5 Revenue Restrictions Imposed by State Governments on Local Governments

The capacity of many local governments to increase their tax and own source revenue has been expressly limited. The New South Wales situation provides an example where this has occurred.

2.5.1 New South Wales Rate Pegging

In New South Wales, local government's revenue raising ability has been restricted by the State Government imposing rate pegging (rate capping). Rate pegging was introduced in 1977, and councils must seek special approval from the Minister for Local Government for annual increases in rates and charges, or in total revenue, beyond a specified level.

In a draft discussion paper prepared for the Local Government and Shires Association of New South Wales, *Advancing Local Government, Partnerships for a New Century*, the UTS Centre for Local Government (UTS, 2001, p. 17) argues that there are frequent cases where adequate provision of services and infrastructure cannot be maintained within rate-pegging limits, even with efficiency gains, due to special local needs, rapid population growth, or some other factor. It argues that requests to increase rates above the capped level have been treated inconsistently, 'and often only after the council concerned has had to devote substantial resources to making its case'. The paper also describes some limitations in the methodology for determining the recommended rate pegging limit, including an understatement of the cost movements affecting local government and the fact that the methodology does not recognise regional variations.

2.5.2 Other Restrictions

The UTS (2001, pp. 18-19) further states:

Alongside rate pegging, are several other significant restrictions on local government revenue which have been applied in recent years. These include:

- Constraints on the fees and charges councils are allowed to levy under other legislation, such as the Environmental Planning and Assessment Act;
- Compulsory transfer of important revenue-generating assets to the State, notably electricity distribution authorities (County Councils);
- Non-payment of rates to councils by a number of State commercial enterprises, particularly power stations and state forests; and
- Restrictions on borrowings.

These examples warrant investigation for similar restrictions on revenue raising capacity in other States.

2.6 Trends in the Funding Mix

The CGC Review (CGC, 2001, p. 50) found that since the introduction of the untied financial assistance in 1974, Commonwealth grants assistance has grown by around 10.8 per cent per annum on average, whereas the States' contributions have only grown around 6.6 per cent per annum on average.

It also found that State assistance to local government had declined in relative importance over this period (ie. from 15 per cent of local government revenue in 1974-75 to 7 per cent in 1997-98), whereas Commonwealth assistance had remained relatively constant (ie. from 10.5 per cent in 1974-75 to 12 per cent in 1997-98).

In summary, the CGC Review (CGC, 2001, pp. 54-55) found that:

Compared with the situation before 1974–75:

- Following the initial impact of the injection of Commonwealth funds, local government has maintained the share of revenue it derives from its own-sources;
- The share of local government revenue coming from the Commonwealth has increased;
- The share of revenue coming from State grants has declined; and
- Local Government responsibilities have broadened.

Table 2.5: Local Government Revenue, 1974-75 and 1997-98, in Constant 1997-98 Prices

	1974-75		1997-98		Annual average rate of growth
	\$m	%	\$m	%	
Commonwealth funding	550	10.5%	1,443	12.1%	4.30%
State funding	779	14.8%	848	7.1%	0.40%
Own-source revenue	3,927	74.7%	9,620	80.8%	
Total	5,256	100.0%	11,911	100%	3.60%

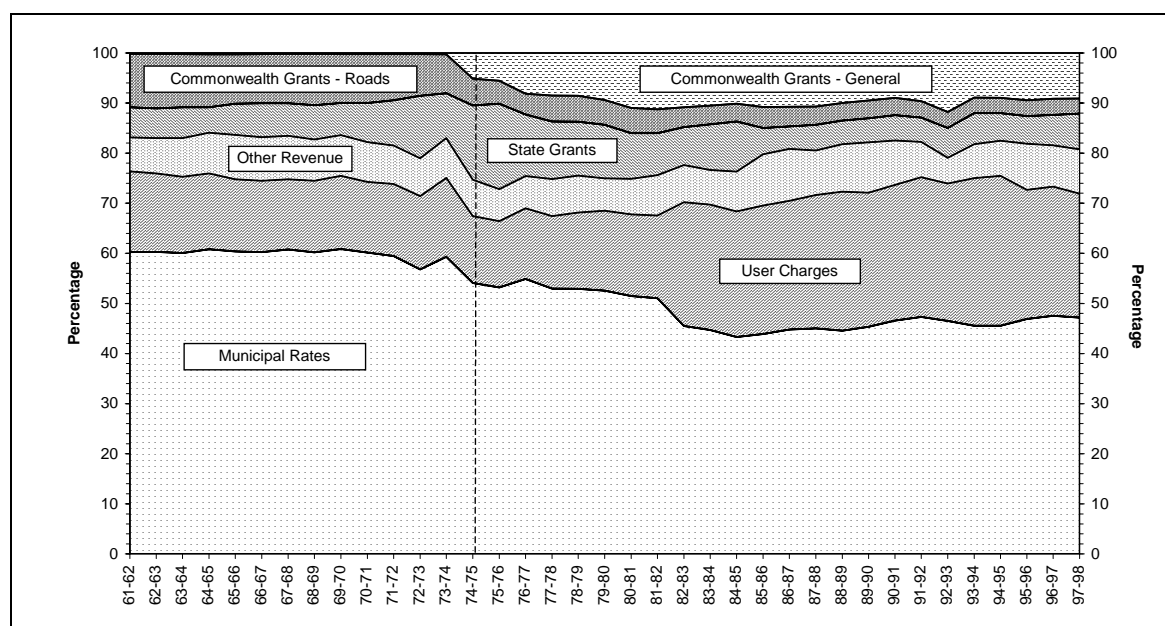
Source: CGC Review, 2001, p. 50.

Chapter 16 of the Working Papers to the CGC Review examines each State's funding to local government. It provides useful background to this Inquiry.

Figure 2.2, which is taken from the CGC Review, shows the contribution (relative importance) of the different revenues and transfers to total local government revenue since 1961–62. It shows that, over the period:

- Own-source revenues have maintained their importance, despite a dip in 1974–75 and 1975–76;
- Commonwealth transfers have become a larger proportion;
- State transfers have been reduced since the mid-1970s, and are now at the same level as the 1960s;
- Municipal rates are now a smaller proportion; and
- User charges have become a larger proportion.

Figure 2.2 Local Government Revenue Sources



Note: State Grants include all Commonwealth payments through the States to local government except for the local government financial assistance grants and Local Roads grants. Commonwealth Grants - General include financial assistance grants and specific purpose payments paid directly to local government.

Source: CGC Review, 2001, p. 51.

Table 2.6, also from the Review, shows that since the introduction of financial assistance grants in 1974–75, each of local government’s revenue sources has grown and grown faster than inflation. Rates remain the sector’s primary revenue source but the slow rate of growth has been a major constraint on the sector’s development. Rates as a share of total revenue has declined from 54 per cent in 1974–75 to 47 per cent in 1998–99. The slow growth in municipal rates has been offset by the fast growth in user charges. User charges have become an increasingly important source of local government revenue. In 1997–98, they accounted for a quarter of total revenue.

Since 1974–75, total Commonwealth and State transfers to local government have decreased in importance. They comprise a smaller proportion of total local government revenue (19 per cent) than they did in 1974–75 (25 per cent). The relative contribution of Commonwealth support has increased slightly (from more than 10 per cent in 1974–75 to 12 per cent in 1997–98). The introduction of financial assistance grants marked a major shift in Commonwealth support. Although the amount of State assistance has increased in real terms since 1974–75, its rate of increase (0.4 per cent per annum in real terms) is about one-tenth of the rate of increase of local government own-source revenue (4 per cent per annum in real terms). Its decline in importance is almost exactly matched by the increase in importance of Commonwealth transfers.

Table 2.6: Local Government Revenue Sources at 1997–98 Prices

Year	Own-source Revenue			Transfers		Total Revenue
	Municipal Rates	User Charges	Other Revenue	Common-wealth	State	
Revenue (\$m)						
1961–62	1 694	453	191	305	169	2 811
1973–74	2 628	697	351	356	398	4 430
1974–75	2 842	703	381	550	779	5 256
1997–98	5 620	2 947	1 052	1 443	848	11 911
Share of total revenue (%)						
1961–62	60.3	16.1	6.8	10.9	6.0	100.0
1973–74	59.3	15.7	7.9	8.0	9.0	100.0
1974–75	54.1	13.4	7.2	10.5	14.8	100.0
1997–98	47.2	24.7	8.8	12.1	7.1	100.0
Average annual growth (%)						
1961–62 to 1973–74	3.7	3.7	5.2	1.3	7.4	3.9
1974–75 to 1997–98	3.0	6.4	4.5	4.3	0.4	3.6
1961–62 to 1997–98	3.4	5.3	4.9	4.4	4.6	4.1

Source: CGC Review, 2001, Working Papers, p. 172.

2.7 Utilisation of Alternative Funding Sources by Local Government

In the face of growing expenditure demands and restrictions on revenue raising, local government is increasingly under pressure to search for new or expanded revenue sources beyond grants, rates, and user charges. Possible own-revenue sources include borrowings; additional user pays/charges; developer contributions; asset sales; other investment income; and entrepreneurialism including public-private partnerships.

As with many aspects of local government, individual councils' capacity to pursue alternative funding sources varies. Councils with higher rateable land values and sources of business income are much more likely to have the capacity to obtain alternative funding sources. However, it should also be noted that some States may have legislative restrictions on the type of alternative funding sources councils can pursue.

2.7.1 Public - Private Partnerships

The increasing costs of establishing and maintaining local government infrastructure have caused local governments to seek alternative financing and management mechanisms for infrastructure, including greater involvement of the private sector. The involvement of the private sector has taken various forms including

service/management/lease contracts, joint ventures, build operate and invest arrangements (e.g. BOO or BOOT schemes), or full privatisation of some of the infrastructure.

The Local Government Ministers' Conference (LGMC) commissioned SGS Economics and Planning to develop *Guidelines for a Local Government Infrastructure Financing Manual*. The draft guidelines (SGS, 2002, p. 21) state that private sector financing of local government infrastructure was present in 66% of councils, from a total of 120 councils surveyed. They also note that:

This figure falls to 40% if service/management contracts are removed from the analysis, recognising that the recent outsourcing behaviour of Australian local governments [has] been manifest in a multitude of design contracts, construction contracts, design and construct contracts, infrastructure maintenance contracts and various others that transfer minimal risks to the private sector.

The draft guidelines (p. 21) suggest that, apart from lease contracts which were used by just over 30% of councils surveyed, the use of risk sharing approaches to local government infrastructure provision is very limited. They also show that when categorised by types of infrastructure, private involvement was more prevalent in infrastructure components that can be separately identified and managed, such as recreation centres. To a lesser extent, stand-alone cultural, civic and library facilities also seem to be candidates for private financing – with lease contracts being the usual transactional form for these types of infrastructure (p. 22).

To date there is limited evidence of private –partnership funding for core local services.

According to SGS (p. 30), the major difficulties faced by local councils in involving the private sector in infrastructure provision arise in two separate areas:

- Contract/service definition. Lack of skills on the part of councils in defining contracts is a major constraint in formulating partnership arrangements with the private sector. Appropriate bundling of infrastructure, lack of legal and engineering skills and complex project management skills were identified as barriers; and
- Attracting private investment. A large proportion of councils, particularly rural and remote councils, reported that they face difficulty in attracting private sector interest. Private investors face high costs associated with freight and staff travel and accommodation which in turn results in inflated costs for service provision and a lack of sufficient market participants to form a competitive market. The small value of the contracts further adds to the problem.

From the SGS study, it appears the key challenges for local government in financing infrastructure (that is, arranging the upfront capital resources for it, as opposed to servicing those upfront capital requirements), centre on:

- Offering the right infrastructure components to the private sector;

- Transferring the appropriate risks to the private sector for the right price;
- Pricing community service obligations if and when necessary; and
- Achieving all of this in a transparent, binding and, if required, a long term contractual arrangement.

2.8 Conclusion

The CGC noted that while local government is now providing a broader range of services, and increasingly providing human services (social welfare and community services) rather than its traditional property based services, the share of revenue coming from State Government has declined. This, combined with the limitations many councils face in increasing their own-source revenue, has placed an increasing focus on revenue from the Commonwealth to support local government activities. This has been recognised by the Commonwealth in the development of the *Roads to Recovery Programme* which has been well received by local governments across Australia. Unlike the financial assistance grants, the *Roads to Recovery* funds are paid directly by the Commonwealth to local government and eligibility provisions in the programme ensure that the funding is additional to that normally expected to be expended by councils on their roads.

TOR 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

This section draws on the information presented under previous terms of reference to address the key question of local government capacity. Some particular issues canvassed in the discussion of capacity are:

- Factors affecting capacity;
- Financial capacity, including local government's low levels of debt; and
- Local government's capacity to plan and maintain essential infrastructure.

It then looks at local government's current involvement at the regional level, including local government's participation in Federal regional policy.

3.1 Factors Affecting Capacity

Capacity is a complex issue affected by a number of different factors. A discussion of the factors limiting councils' capacity to respond to community challenges can be found in Daly's 'Challenges for Local Government in the 21st Century'. Some of these include:

- Size and resources;
- Efficiency;
- Adaptability and flexibility;
- Human resources and skills available to local government;
- Responsiveness of elected representatives;
- The extent to which councils' boundaries reflect contemporary pressures and challenges; and
- Economic and environmental base.

Daly (2000, p. 201) notes that:

Generally, non-metropolitan councils with limited capabilities are those with small urban bases, low income generating industries, severe environmental challenges and low population densities. Councils with high capacity levels are frequently centred around large towns and have populations above 25,000 people. These areas often have stronger economic bases, relatively dense population clusters, less challenging natural environments, accessibility to major provincial cities or state capitals, and well developed infrastructure.

Clearly, the capacity of local governments to meet existing obligations varies greatly, as does the standard to which they can provide local government services. The following Table provides a snapshot of the range of services and activities undertaken by three different councils with very different characteristics and capacity:

Table 3.1: A Comparison of Three Councils

NSW	Wollongong City Council	Wagga Wagga City Council	Wakool Shire Council
Population	186,608	58,200	4,882
Area (sq. km)	741	4,886	7,549
Employees	934	485	n/a
Income	\$128,589,000	\$80,000,000	\$9,500,000
Rate income	\$75,163,859	\$26,174,682	\$2,042,000
Total Expenditure	\$131,630,000	\$80,000,000	\$9,500,000
Council Services	<ul style="list-style-type: none"> • Animals (domestic) • Aged Services • Caravan Parks • Children's Services • Community Transport • Crematorium & Cemeteries • Cultural Development • Development & Building Advice • Libraries • Online Service 24 hrs for Public • Rates • Recreational Facilities • Reporting Problems (Urban Services) • Respite Care • Rooms, Halls and Gardens for Hire • Trees • Waste Management & Recycling • Youth Services • Maintenance of Roads and Bridge • Waste Management 	<ul style="list-style-type: none"> • Airport Service • Animals (domestic) • Baby Health Services • Building & Development • Bush Fire Prevention • Community Health Services • Crematorium & Cemeteries • Cultural Services • Drainage • Energy Plant • Family Day Care • Flood mitigation • Libraries • Livestock Marketing Centre • Noxious weed management • Parks & Gardens • Safety and Crime Prevention Plan • Sport & Recreational Facilities • Tourist Information Centre • Transport Planning & Management • Urban Salinity Management • Waste Management & Recycling • Maintenance of Roads and Bridge 	<ul style="list-style-type: none"> • Building & Planning Services • Bus Services for senior education in neighbouring towns • Bushfire Prevention • Community Health Services • Sporting Amenities • Libraries • Maintenance of Local Roads & Bridges • New Waste Disposal & Sewerage Scheme • New Works Depot • Parks & Reserves • Public Halls • Salinity Management • Stormwater Management Plan • Tourist Information Centre • Water Filtration & Irrigation Schemes

Source: (1) Australian Local Government Guide (March 2002-July 2002) 33rd Edition

(2) Local Council Websites:

www.wollongong.nsw.gov.au

www.wagga.nsw.gov.au

www.wakool.nsw.gov.au

The diverse nature of local government’s functions could also have an effect on local government’s capacity. Daly (2000, p. 197) notes that local government’s ‘diversity of functions ... does not amount to a critical mass’ and that ‘Compared to other Western countries, Australia’s local government’s range of functions is narrow and disjointed’.

The fact that local government functions are becoming more diverse means it is moving in a different direction to many private sector organisations which have increasingly recognised the need to specialise in order to respond effectively to the pressures of the modern environment.

Further discussion of local government capacity, in the context of State local government reform programmes, is provided under TOR 5.

3.2 Financial Capacity

An important aspect of local government capacity is its financial capacity. Discussion of local government’s financial position, including the high degree of dependence of some councils on grants, is discussed under TOR 2. In assessing local government’s financial capacity, relevant issues are that:

- Local government has maintained its share of revenue from its own sources, despite providing an increasing range of services; and
- Its overall debt levels have declined over recent years.

On average, the local government sector continued to be in a sound financial situation in 2000-01, see Table 3.2. Indeed in 2000, for the first time since records commenced in 1993, total cash, deposits and lending exceeded gross debt. The position was even healthier in 2001.

Table 3.2: Financial Assets And Liabilities For Local Government, 30 June 1993 to 30 June 2000 (\$m)

Year	1994	1995	1996	1997	1998	1999	2000	2001
Gross debt	6,757	6,435	6,080	6,182	6,307	6,168	7,542	7,504
Total cash, deposits and lending	4,922	4,854	5,814	5,524	5,451	5,940	8,982	9,507
Net debt (worth)	1,835	1,581	266	658	856	228	(1,440)	(2,003)

Source: Australian Bureau of Statistics Catalogue 5306.0

Given that interest rates have been at historically low levels in recent years, this suggests that there is capacity for local government to respond to financial pressures from within existing resources.

In 2000–01 local government in Australia had a net worth of close to \$147.6 billion with net assets of \$157 billion and liabilities of \$9 billion (see Table 3.3).

Table 3.3: Local government assets and liabilities, 2000-2001 (\$m)

Assets	NSW	Vic	Qld	WA	SA	Tas	NT	Total
Financial assets								
Cash and deposits	291	428	1134	168	29	40	37	2,126
Advances paid		4				3		7
Investments, loans and placements	3,140	534	236	436	58	101	46	4,552
Other non-equity assets	610	549	435	160	67	45	9	1,874
Equity					11			11
<i>Total</i>	<i>4,041</i>	<i>1,515</i>	<i>1,805</i>	<i>764</i>	<i>164</i>	<i>190</i>	<i>92</i>	<i>8,571</i>
Non-financial assets								
Land and fixed assets	63,123	28,044	32,647	10,454	8,030	3,955	927	147,180
Other non-financial assets	920			8		4	5	936
<i>Total</i>	<i>64,043</i>	<i>28,044</i>	<i>32,647</i>	<i>10,462</i>	<i>8,030</i>	<i>3,958</i>	<i>932</i>	<i>148,115</i>
Total	68,084	29,559	34,452	11,226	8,194	4,148	1,023	156,686
Liabilities								
Deposits held		48			145	3		196
Advances received	25	7			11	(1)		42
Borrowing	1,428	611	3,000	219	69	207	11	5,546
Unfunded superannuation liability	703	269	362	81	69	35	9	1,529
Other provisions	74		7	2	7	6		96
Other non-equity liabilities	638	382	364	165	96	17	18	1,680
<i>Total</i>	<i>2,868</i>	<i>1,316</i>	<i>3,773</i>	<i>468</i>	<i>397</i>	<i>267</i>	<i>38</i>	<i>9,088</i>
Shares and other contributed capital			40					40
GFS net worth	65,216	28,243	30,679	10,758	7,797	3,881	985	147,558
Net debt	(1,978)	(301)	1,630	(385)	138	65	(71)	(903)
Net financial worth	1173	199	(1968)	296	(233)	(77)	54	(557)

Source: Australian Bureau of Statistics Government Finance Statistics Cat No 5512.0 Table 30.

It should be noted that rating agencies and the Australian Loan Council include local government's financial position in their assessments of State Government finances. State governments must also manage the annual financial performance of the State public sector (including local government borrowing) within the constraints set by the Australian Loan Council. These constraints seek to ensure that the demands placed on financial markets by the public sector, including local government, are at a level that will not significantly impact on the availability of capital to the private sector.

3.3 Other Impacts on Capacity

3.3.1 Infrastructure

As shown in Appendix 1, local government has extensive responsibilities in relation to planning, developing and maintaining infrastructure for its communities (eg. roads, water supply, sewerage and drainage). The condition and accessibility of these assets are important to regional economies. Accordingly, infrastructure is central to any consideration of local government's capacity to meet its existing obligations and to take on a stronger role at regional level.

In recent years a number of State studies (see Appendix 4) have highlighted concerns about the condition of local government infrastructure and its impact on local communities. These include studies of local government infrastructure in Victoria, South Australia and Western Australia. The studies call for better asset management, funding and planning.

3.3.2 The Highway Rule

The 'Highway Rule' was an ancient common law principle that gave road authorities limited immunity from liability for damage and injury caused by poorly maintained roads where there had been no attempt to repair the road. The High Court abolished the rule in May 2001 (*Brodie v Singleton Shire Council*). Liability in such cases will now be determined under the normal rules of liability. Those responsible must now maintain roads in a good, but not perfect, state.

The decision greatly concerned road authorities, especially local councils. On 8 June 2001, COAG asked the Australian Transport Council to examine the implications of the decision and report back. A report is in the process of being finalised.

The potential impact of this High Court decision on the capacity of local governments to meet their current (and future) responsibilities is uncertain, with States holding different views.

3.4 Local Government Regional Activity

3.4.1 Local Government's Role in Regional Development

Local government's involvement in regional development has grown in recent years. The Federal Government's 2001 election commitments detailed in *Building Stronger Local Government 2001* include the commitment to 'continue to recognise and assist local government to foster regional economic development and [to] continue to work with councils to reduce business costs and sponsor regional economic development initiatives.'

Recent research highlights the importance of local government's role in regional development.

A report prepared for the Local Government Association of South Australia by Flinders University (Beer, Maude, 2002) looked at economic development agencies across Australia and compared their performance with comparable agencies in England, Northern Ireland and the USA. Among other things, the report noted that (p. x):

Local government underpins economic development in this country. Economic development organisations based in local governments are the most numerous type of development body in Australia and local governments are the most important partners of these agencies. Local government funding enables many of these bodies to operate and respond to the needs of their regions and communities.

A study conducted for ALGA, *Developing Competitive Regions*, (O'Neill Pollock and Associates, 1999, p. 11) looked in detail at local government's role in regional development and identified the following three key areas where local government can support regional economic development:

- Creating and maintaining the investment environment;
- Facilitating new local investment;
- Attracting external investment (new business and capital).

In reaching this conclusion, the study noted the importance of infrastructure to economic activity and local government's key role in providing both hard and soft infrastructure at the local and regional levels.

DOTARS has recently commissioned further research on local government's involvement in regional economic development. Preliminary findings of the study are anticipated in August and will be provided to the Inquiry Committee as soon as they are available.

3.4.2 Federal Government's Regional Policy Framework

In August 2001 the Federal Government launched its *Stronger Regions: A Stronger Australia* statement.

The statement recognises that the Federal Government does not have all the answers and that it must work in partnership to build growing and vibrant regions and to achieve strong, positive and respected regional communities. The Government will support communities to identify and work to realise the potential of their regions by providing the right environment for economic growth and the tools to realise their future.

Local government is the sphere of government closest to communities and as such is an important partner in building stronger communities.

Local government is a full member of COAG. It also participates in the Local Government and Planning Ministers' Council, Regional Development Council, Australian Transport Council, Ministerial Council for Aboriginal and Torres Strait Islander Affairs, Cultural Minister's Council, Natural Environment Protection and

Heritage Council, Ministerial Council on Immigration and Multicultural Affairs and the Natural Resource Management Council. Through ALGA, local government participates in policy making at the national level, although the level of engagement varies.

In November 2000, Federal, State and Territory Regional Development Ministers and ALGA agreed to a Framework for Cooperation. The Framework for Cooperation committed the three spheres of government to working together in a spirit of partnership to deliver government policies, programmes and services tailored to the needs of regional communities.

A revised and updated Framework will be discussed at the inaugural meeting of the Regional Development Council expected to take place in December 2002.

The Sustainable Regions Programme is the major initiative under the *Stronger Regions: A Stronger Australia* statement. The Programme is a four year prototype and is operating in the following eight regions:

Campbelltown - Camden, NSW;
Far North East, NSW;
Gippsland, VIC;
Atherton Tablelands, QLD;

Wide Bay Burnett, QLD;
Playford - Salisbury, SA;
Kimberley, WA; and
North West - West Coast, TAS.

Local government is well represented on the locally based Advisory Committees which have been established in each of the eight prototype regions. The Advisory Committees have undertaken or will soon complete a review of reports and studies of their region and community consultations to establish priority areas for action. The strategic plans of local government are integral elements of this process.

The Advisory Committees play a key role as a conduit between the Commonwealth and the community. In the short to medium term, local government is well positioned to partner Federal and State Government to assist the Advisory Committees to identify and seize regional development opportunities. Tailoring projects and solutions to meet the priority needs of regions will require cooperative partnerships between all spheres of government and the business and community sectors.

For further information on the Sustainable Regions Programme see www.dotars.gov.au/regional/sustainable_regions

A further key initiative of the regional statement is the Regional Business Development Analysis which will recommend an action plan to the Government on how it can improve the regional business environment and reduce the impediments to growth, examine the effectiveness of the current Federal, State and Territory, and local government assistance for regional businesses, and the scope for greater cooperation between governments in providing assistance.

ALGA is a member of the Reference Group that will harness the views of a number of key interest groups that have publicly stated positions relating to regional business development.

As noted in TOR 2, local government is also extensively involved in Commonwealth regional programmes. Local government comprises 33% of successful applicants for funding under DOTARS programmes.

3.4.2.1 Other Commonwealth Initiatives

Local government also has a key role in delivering many national programmes and strategies which impact at regional level, including the Natural Heritage Trust, Networking the Nation, National Competition Policy, transport reform and services to Indigenous communities.

3.4.2.2 Natural Resource Management

Local government has expressed concern about its role in natural resource management (NRM). Its role in NRM is longstanding and based on its statutory responsibilities (as derived from the States); expertise; efficiency; and knowledge of local conditions. As a key stakeholder and provider of NRM services nationally, local government has argued that it is not being sufficiently consulted nor engaged in the development of national NRM programmes such as the National Action Plan for Salinity and Water Quality (NAP) and the Natural Heritage Trust Phase 2 (NHT2).

These national programmes are being developed through the use of Bilateral Agreements between the Commonwealth and State/Territory Governments. The delivery of the programmes will be guided by accredited Integrated Catchment/Regional Management Plans.

At the 11th meeting of the Council of Australian Governments (COAG) in April 2002, the importance of local government in this arena was recognised. The Council agreed to support new NRM arrangements that include adequate local government representation on regional bodies; local government involvement in the development of integrated natural resource management regional plans; and awareness of regional objectives in local planning.

3.4.3 Regional Roads

Local government's efforts in relation to managing its local roads responsibilities offer further evidence of its capacity to operate on a regional basis. South Australia and Western Australia have regional local road planning mechanisms in place.

South Australia sets aside 15% of its local road financial assistance grants for 'special local road needs'. These grants are distributed amongst councils on the recommendations of a Local Roads Advisory Committee, which assesses submissions from regional associations about roads of regional significance. The *Roads to Recovery Programme* follows the financial assistance grants model - it also allocates 15 per cent of South Australian funds to regional roads.

The Federal Government has provided funding to the Local Government Association of South Australia, under the (now lapsed) Local Government Incentive Programme, to establish guidelines and a database that will help councils, the State Government and the Local Government Grants Commission facilitate local road funding decisions

and improve transport and infrastructure planning. The database is being managed by the Local Roads Advisory Committee in conjunction with the South Australian Office of Local Government and is being used to support regional road planning. Aspects of the data base that focus on regional planning include:

- Identification of the priority roads that serve a regional purpose - whether mainly for freight, for tourism or for social reasons;
- Development by six groups of councils of a plan for local roads of regional importance; and
- Hypothecation of 15% of the States' local road financial assistance grants for upgrade of regional roads that councils and the State agree are a priority.

The Western Australian Government and Western Australian Municipal Association signed a five-year State Road Funds to Local Government Agreement commencing in 2000–01, which provides over \$90 million per year to councils for local roads. The main features of the agreement are:

- Local government-elected representatives can participate with the State Government in determining the preservation and expansion of the local road network, together with traffic management projects from both a regional and state-wide perspective;
- One-quarter of the State's road-related revenue (for example, vehicle registration charges and fuel franchise fees) is available for local roads, with a guaranteed minimum allocation of \$90 million per year for each of the five years;
- An advisory committee with State and local government representation makes recommendations to the State transport Minister on how these funds should be spent; and
- Ten regional road groups have been established with a membership of elected local government representatives to make recommendations to the advisory committee on the annual local road programme for their region.

The Institution of Engineers *Australian Infrastructure Report Card 2001* (p. 12) recommended all States consider the Western Australian model. Queensland has established a Memorandum of Understanding (MOU) on Queensland Local Roads between the Local Government Association of Queensland and the Queensland Department of Main Roads. Key outcomes sought include:

- Improving coordination and planning of road projects;
- Increasing efficiency in delivery of road projects;
- Sharing of equipment, technical expertise and purchase of supplies;
- Maintaining employment levels within regional Queensland; and
- Maximising the economic development of regional Queensland.

Some Western Australian councils are now going one step further and are piloting regional transport planning arrangements. This involves expanding local government's role in regional transport infrastructure planning and coordination, using the existing coordination mechanism of the Regional Road Group. The new role of the Regional Road Group will include a formal link to the broader transport planning and coordination role undertaken by other government agencies, in particular Main Roads Western

Australia, the State Department of Transport and the relevant Regional Development Commission.

3.4.4 AusLink

AusLink is the Federal Government's plan for developing Australia's future infrastructure network. AusLink aims to deliver more strategic spending of Commonwealth transport funding, greater opportunities for private sector involvement and a better deal for infrastructure investment in metropolitan and regional Australia.

The Government will issue a comprehensive discussion paper – a Green Paper – on AusLink in August 2002, following an initial round of consultation. The Government will conduct further consultations on the Green Paper with the States and key parties, and will then develop a formal statement of Government policy – a White Paper – by March 2003.

AusLink highlights the need to update and improve arrangements for inter governmental co-operation on infrastructure development. Under a 1991 Agreement, the Commonwealth accepted 100% responsibility for the National Highway System, States accepted responsibility for arterial roads and local government for local roads. But no one had responsibility for looking at the total interconnected land transport system, for determining national priorities, or deciding where funding could deliver the greatest benefits.

A new Inter Governmental Agreement will be negotiated to redefine and clarify respective roles and responsibilities of each level of government, including funding responsibilities for the national network and beyond. Local government is a major stakeholder, with legitimate and important interests in planning and management.

AusLink will establish a national advisory body. The form it will take and the selection process for membership are yet to be decided. That, and the specific functions of the national advisory body, will be some of the most important issues raised and discussed as part of the consultation process through the Green Paper.

Quarantined funding for regional projects under the AusLink framework will ensure regional Australia does not miss out because of the high cost of urban infrastructure. The funding arrangements of the quarantined component have yet to be determined. However as an overarching theme, AusLink is about more strategic use of funding for land infrastructure development. Therefore AusLink will encourage collaborative arrangements between councils to develop strategically important infrastructure. The evaluation process for funding projects will include environmental, social, safety, and regional criteria as well as economic.

3.5 Scope to Enhance Local Government's Role in Regional Initiatives

Local government's ability to take an enhanced role at regional level is limited by existing capacity. Research suggests that 'Australia's local governments have had fewer resources and responsibility to address regional issues than their counterparts, for example, in Britain, the USA and many European states.' (Gleeson, 2001,

p. 135).

This capacity, however, can be enhanced by a more regional approach where efficiencies can be achieved by local governments working together to meet common objectives.

In many cases local government has already taken steps towards developing a regional focus and approach, including through the formation of Regional Organisations of Councils (ROCs). A recent study by Marshall and Witherby (2002) identified 63 ROCs in Australia, present in all States and varying greatly in size and population. Marshall and Witherby's study indicated that there were several areas of achievements of ROCs as reported by them including (p. 7):

- Regional strategic planning. A major output of ROC activity has been the production of comprehensive and sophisticated regional planning documents covering a range of issues (environment, tourism, coastal management, transport). This activity has encouraged coordination and rationalisation of critical areas within related ROCs and resulted in beneficial results for all members;
- Resource sharing/group tendering which has resulted in real financial gains; and
- The establishment of additional regional bodies designed to promote networking and industry development.

DOTARS sees ROCs as an important demonstration of local government's capacity to respond at regional level.

For those councils that lack the resources and skills to take on additional functions on an individual basis, resource sharing with other councils may be a practical option. Murray Jorgensen & Associates noted in a report prepared for the Peel Group of Councils, *Resource and Technical Expertise Sharing (Strategies and Action Plans)*, October 2001, that:

Resource sharing usually involves councils entering into formal structural partnerships in order to plan, fund, manage and deliver services effectively at the local level...(It)...allows for the retention of effective service potential and the minimisation of unnecessary duplication of costs. It also prevents the potential for resources to be idle between times of utilisation. It does this while allowing local authorities to maintain their autonomy.

Resource sharing is a widely used and accepted practice by local authorities. In Western Australia for example, of 120 respondents to a survey conducted by the Western Australia Department of Local Government, around 76% indicated that they shared resources in some form (Jorgenson and Associates, 2001).

In assessing scope to enhance local government's role, consideration needs to be given to balancing the demands placed on local government by the Commonwealth and States. The relationship between local government and the proliferation of regional governance structures which have emerged in recent years is an issue. Examples of such structures include the NHT/NAP regional committees, the Commonwealth's Area Consultative Committees and the various State regional bodies. There is evidence that local government is required to devote increasing

amounts of resources to participating in/interacting with these structures. DOTARS has commissioned research on this issue (*The Role of Local Government in Emerging Regional Governance Arrangements*, 2002, p. 49), the preliminary findings of which suggest that:

An emergent issue is the level of demand for local government participation in regional initiatives, which raises clear issues of capacity to do so in terms of financial costs, time/opportunity costs and skills/expertise. In this context, a clear issue is the personal accountability of local government representatives on regional initiatives to the local governments and broader community they supposedly represent. The sheer workload, and opportunity cost to fulfilling traditional roles, mitigates against members having sufficient time to keep local government and community constituents informed and to confer with them between meetings (Bellamy *et al.* 2002). Further, some local governments are effectively organised regionally to enable convenient communication (for example, through reports to regional development corporation meetings) whereas others are less tightly organised, if at all. The reality may well be that local government members on regional groups bring their experience of their sectoral group and its perspectives on certain issues, but are logistically unable to communicate effectively on regional matters or work in a truly 'representative' manner.

While there are undoubtedly challenges, on balance the information presented in this and preceding sections suggests that there are potential benefits from local government taking a stronger role in regional development and in delivering the Commonwealth's regional policy objectives. From DOTARS' perspective:

- Local government offers a wide and well-established national network of public administration which may be capable of taking on extra responsibilities and functions. This includes a significant presence in rural and regional Australia. (In some cases local government is the only institutional presence in small rural and remote areas.);
- Local government has strong links to the community and is accountable to the communities it represents. Its legislative basis makes it both durable and financially stable – unlike some community or interest groups;
- Local government has a practical service orientation and good organisational skills which make it capable of innovative, speedy and flexible responses. The integrated structure of councils can allow a high level of co-ordination between different activities;
- The links between local government and local business and industry puts councils in a good position to foster a 'bottom up' approach to regional development;
- Local Government is now playing an increasingly important role in providing information to support Commonwealth regional policy development and as a key stakeholder in the implementation of Commonwealth regional policy initiatives; and
- Extensive contact/transactions between business and local government makes local government an ideal entry point for access to information about other governments' services and programmes and a possible location for delivery of such services.

However, an increased role for local government in regional development would need to be appropriately funded and balanced with the other demands on local government by communities and State Governments for increased service provision.

Cooperation is the key. Models based on competition between local government authorities are unlikely to be productive for enhancing the capacity of local government and will mitigate against efficient regional outcomes.

3.6 Conclusion

The information in this TOR indicates that capacity is a complex issue and that capacity to undertake more functions will vary between councils. DOTARS considers that councils have already made progress towards acting effectively at the regional level and that there is scope for local government to take a more active role in Commonwealth regional development policies and programmes. However, as noted earlier, local government would need to be appropriately resourced to do so.

Consideration could also be given to matching additional responsibilities to the capacity and capability of councils even if that meant that, for some functions, responsibility extended to outside current council boundaries.

TOR 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

This section commences with information on current local government expenditure. The scope of the expenditure is important when considering the changes to local government functions and responsibilities that have been, and are being experienced.

In light of a discussion of these changes, the issues involved in defining cost shifting (as distinct from unfunded mandates) are discussed. A definition of cost shifting is offered that brings together the key issues from DOTARS' perspective. Some examples of cost shifting identified in submissions to CGC Review and other sources are provided.

Clearly, local government's financial capacity is influenced by changes in the powers, functions and responsibilities between States and local government, most notably its capacity to service infrastructure. The capacity of local government to meet existing obligations is addressed in TOR 3, and therefore is not dealt with in any detail in this section.

4.1 Local Government Expenditure

Australia-wide, the main categories of local government expenditure continue to be transport and communication (about 30 per cent) and housing and community amenities (23 per cent). (See Table 4.1). Local government, in all jurisdictions except the Northern Territory, expended between about 23 per cent and 36 per cent on transport and communications, with New South Wales councils recording the highest proportion of their outlays on this purpose. The Northern Territory recorded only 9 per cent of its expenditure on transport and communication but, at the same time, nearly a quarter of its expenditure was recorded as being spent on 'other economic affairs' which may have included transport and communication related activities.

Housing and community amenities was the next largest expenditure item for councils, with Tasmania recording the highest proportion of expenditure at 35.1 per cent and Western Australia the lowest proportion at 15.3 per cent.

Table 4.1: General Government Expenditure, by Purpose, 1999-2000 (\$m)

	NSW	Vic	Qld	WA	SA	Tas	NT	Total
General Public services	805	322	1,067	117	154	54	69	2,588
Public order and safety	121	57	35	51	14	2	1	281
Education, health and welfare	237	553	66	101	52	31	11	1,051
Housing and community amenities	1,217	579	1,001	212	175	155	51	3,390
Recreation and culture	540	569	274	325	160	55	15	1,938
Transport and Communication	1,837	876	826	449	260	110	20	4,378
Other	344	218	326	128	108	34	54	1,212
Total	5,101	3,174	3,595	1,383	923	441	221	14,838

Source: Australian Bureau of Statistics Government Finance Statistics, Cat no 5512.0, Table 32.

4.2 Changes in Local Government Functions and Responsibilities Over Time

TOR 1 has described the extent of changes in local government functions over time.

4.3 Defining and Measuring Cost Shifting

One of the fundamental difficulties with defining and measuring cost shifting is that in order to show that cost shifting is occurring, it is necessary to decide which government is actually responsible for providing the service in question. Material presented under previous TOR, particularly TOR 1, has highlighted the different legal and constitutional frameworks in which local government operates in each State and the wide range of services it provides. This makes defining local government's role very difficult. Similar difficulties apply to defining the role of State Governments. This problem is exacerbated by the fact that there are few processes for systematically and regularly reviewing the relative roles and responsibilities of States and local government in key areas.

In its Review, the CGC sees cost shifting as one of a number of factors contributing to the changes to local government's functions and responsibilities over time. It states that cost shifting can be said to have occurred where:

- Local government agrees to provide a service on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service; and
- For whatever reason, another sphere of government ceases to provide a service and local government steps in.

DOTARS proposes a definition of cost shifting which is somewhat broader than the CGC's definition and which, among other things, makes a link between increased functions and lack of additional revenue. (Restrictions on local government's access to revenue are discussed under TOR 2.)

DOTARS' proposed definition of cost shifting is as follows:

A State Government failing to ensure there are sufficient funds or increased access to revenue to cover the imposition of functions and/or costs onto local government for which the State Government is normally regarded as responsible.

Consistent with this definition of cost shifting, if community pressure alone is forcing local governments to expand their services, no other sphere of government can be regarded as responsible; cost shifting has not occurred. (However, this is not always clear cut as it is possible for community pressure to be stimulated by initial State funding for a service which is subsequently withdrawn.) The same applies to decisions by local government to voluntarily expand its services (referred to as 'policy choice' by the CGC). The proposed definition of cost shifting excludes both these

situations from consideration. However, if the Inquiry focuses more broadly on unfunded mandates, rather than cost shifting per se, both community pressure and voluntary decisions by local government to expand its services in order to better meet local needs remain relevant.

4.4 Examples of Cost Shifting

Much of the available evidence to date on cost shifting has been anecdotal. However, the Municipal Association of Victoria (MAV) and the Local Government and Shires Associations of NSW (LGSA) have both documented examples which support the strong contention of local government that its functions and responsibilities have increased, and that these increasing responsibilities are not matched by an increase in funding or an appropriate access to additional revenue.

MAV cites examples where funding provided through specific purpose payments to local government, by (or through) the Victorian State Government, has declined relative to the increase in expenditure for providing services:

- An additional \$14 million is required to restore funding of public library grants to the level of 10 years ago;
- Maternal and child health funding has not been adjusted in the three years prior to 2000-01, resulting in local government having to find an additional \$1.2 million in that financial year. An additional \$0.8 million is required to restore funding to the level of 10 years ago; and
- Lack of indexation for beach cleaning has resulted in a cost shift of \$4.8 million to local government since 1986-87.

Although it lacks similar quantification, the LGSA's 2001-02 Budget submission to the NSW Government lists ten Acts of the NSW Parliament, mainly covering environmental and social areas, which place a financial and administrative burden on councils, but are not accompanied by commensurate resources, namely:

- Protection of the Environment Operations Act 1997
- Local Government Amendment (ESD) Regulation 1997
- Stormwater Management Planning
- Local Government (Approvals) Amendment (Sewage Management) Regulation 1998
- Waste Minimisation and Management Act 1995
- Contaminated Land Management Act 1997
- Environmental Objectives for NSW Waters
- Marine Parks Act 1997
- Companion Animals Act 1998
- Local Government Amendment (Community and Social Plans) Regulation 1998

In addition, the submission states that increasing costs are being incurred in areas such as planning and building regulation; street lighting charges; total catchment management; provision of public health infrastructure support (such as facilities and services to attract doctors to country towns); and community law and safety measures to offset increased crime and declining police numbers in country areas.

A number of council submissions to the CGC Review refer in a non-specific way to their increased responsibilities and ‘unfunded mandates’, but few costed examples were provided. The following is a summary of the areas of increased responsibilities and/or cost shifting identified by councils in those submissions.

4.4.1 NSW

- Acquisition of land for national parks and State Forests with resultant loss of rates and increased maintenance costs for local access roads.
 - Kyogle Council has assessed that the 7000ha of Shire land acquired by State Forests over the three years prior to its submission represents approximately 2.3% of previously rateable land, which translates to a loss of \$55,000 per annum.
- A number of councils also drew attention to the issues identified by the LG&SA (see above).

4.4.2 Victoria

- Family and Neighbour Links Program, Family Day Care, Maternal and Child Health Services, Pre-schools, Health Registrations and services, and Food and Safety Audits.
- Other areas where additional costs are said to have incurred because grants have declined in real terms are tourism, economic development, the Arts and libraries.

4.4.3 Queensland

- The Queensland Integrated Planning Act 1977, which has changed the role and responsibilities of local government in relation to land use planning and management.
- The Environmental Protection Act 1994, which imposes higher standards in the areas of solid and liquid waste disposal that local government, must comply with (including upgrading sewerage treatment works). Licensing of some environmental activities has also been devolved to local government.
 - Ipswich City Council calculates that the requirements of the Environmental Protection Act will cost it \$43 million over 5 years, equivalent to 10 per cent of its total operating costs.
- Increased unfunded responsibilities for Aboriginal Community Councils in the areas of environmental protection and law and order.
- Increased administrative costs incurred in complying with Queensland’s Local Government Act.

4.4.4 Western Australia

- State Agreements Acts, which involve expenditure/cost concessions for project proponents as a basis for encouraging economic or resource development. These often include a waiver of local government property rates.
- Increased obligations and compliance costs under State legislation, including the Health Act, Local Government Act, Freedom of Information Act and Disability Services Act.
- Provision of security services to make up for a lack of police resources.
- The need for local government to provide monetary and other incentives to attract doctors to their regions.

- Responsibility for weed control passing from the Agricultural Protection Board to local government.
- Withdrawal of post offices and banks from many rural towns has resulted in local government facing major costs in providing these services.
- In some cases local governments state that they are also having to provide services such as electricity, liquid fuel retailing, mobile phone services and TV re-transmission.

4.4.5 South Australia

- Transfer of responsibility and costs for recreational jetties to coastal local government authorities.
- Loss of rateable income on land preserved as Conservation Parks.
- Zero valuation for land subject to Native Vegetation Heritage Agreements.
 - The District Council of Elliston has assessed the annual additional cost and revenue impact in these three areas to be nearly \$50,000, which is 6.5% of the 1999/2000 rateable income of the council.

4.4.6 Tasmania

- The requirement for emergency services to meet State established performance benchmarks without consideration of resource capacity of the council.
- Responsibility for public safety
 - It is acknowledged that the Tasmanian Government has entered into partnership arrangements with some councils, agreeing to the broad principle that no transfer of responsibilities will occur without appropriate funding. However Launceston City Council claims this is often overlooked with the ancillary effects that flow from changing legislation.

4.4.7 Northern Territory

- Provision of Aboriginal Community Police Officers by Community Government Councils.

4.5 Implications of Changes to Local Government's Role and Responsibilities

As already noted, all levels of government face constant pressure to review their activities and priorities to respond to external pressure of a variety of kinds. Local government is not alone in this regard. Ensuring that increased responsibilities are matched by increased funding is only part of the equation. Making sure local government is efficient and has sufficient flexibility to respond to changing circumstances is also important. This issue is addressed in TOR 5.

The CGC Review considered the implications of the changes in local government's role and responsibilities and the consequent financial pressures faced by local government. It is worth considering the CGC's findings.

The CGC (2001, p.55) noted that:

The financial pressures being faced by Local Government Bodies (LGBs) are not due to a single influence. It is therefore unlikely that a single response

would be reasonable or appropriate. Where the source of the financial pressure is a result of the discretionary actions of the LGB itself (because LGBs have chosen to respond to particular needs of their residents), it would be appropriate for LGBs to meet these pressures from their own revenue sources.

The CGC (p. 55) also considered that:

Where the source of the financial pressure is the result of changing policies or actions of other spheres of government ...it would be appropriate for that sphere to acknowledge the effect of its actions on local government. Where these actions impose extra functions on local government greater financial assistance could be appropriate. Financial assistance could also be appropriate where these actions reduce the revenue capacity of local government (for example rate pegging, fee capping or the granting of rate concessions/exemptions to industry).

The CGC (p. 55) also noted that

The diversity of LGBs further complicates this issue. While a change in the policy of another sphere of government may affect all LGBs, the different circumstances of each LGB can mean that the same change leads to very different financial pressures. For example, not every LGB has the same capacity to raise user charges. Giving LGBs an increased power to levy user charges does not mean they all have the same increase in capacity to provide additional services.

Finally, the CGC (p. 55) commented that

Devolving functions to LGBs which are already highly dependent on grants can impose particular difficulties. If these LGBs have low revenue capacities they will not have the financial capacity to finance the new function. This situation may not be alleviated even if a new revenue source was also devolved to local government. Their low revenue capacity means that these LGBs might not raise sufficient revenue from the new source to enable them to provide the function. In the extreme, devolving functions can place at risk the financial viability of some LGBs.

TOR 5 The scope for rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities

This section outlines some of the existing processes for rationalising roles and responsibilities between the levels of government and suggests that there is an ongoing need for development in this area. A brief discussion on some of the advantages of structural reform is then provided. DOTARS sees structural reform of local government as an important way forward to ensure that local government continues to make better use of resources in order to deliver better quality services to local communities.

The material builds on the proposition in TOR 4 that addressing the match between local government's functions and its funding is only part of the issue – ensuring that local government is efficient and is able to respond flexibly to changing circumstances and pressures is equally important.

5.1 Rationalising Roles and Responsibilities

There is a relatively complex relationship between local government, the States and Territories and the Commonwealth Government. These complexities arise from the constitutional arrangements which result in an unclear division of the respective roles and responsibilities of the three levels of government. While respective revenue raising powers are relatively well differentiated, the role of local government and hence its 'rightful share' of the tax revenue is unclear. As local government increasingly broadens its service provision role in to more human service areas, this blurring of roles and responsibilities will continue.

There are different ways of looking at the issue of roles and responsibilities of the three spheres of government within the Federal system.

One view is based on a more hierarchical, historical approach which sees each sphere of government having clearly defined roles and responsibilities with no overlap.

A different approach is to acknowledge that there are issues in which all the spheres of government have a shared interest – natural resource management being a good example. The question becomes one of working out where each sphere has natural interests and is best placed to achieve particular outcomes. Relationships take the form of a series of negotiated settlements and can be developed in ways that avoid unnecessary duplication or overlap. The increasing importance of regional issues and regional approaches in the public policy agenda, and the increasing use of inter-governmental partnerships is an expression of this approach.

Listed below are a number of existing processes for addressing the roles and responsibilities of the three levels of government.

5.1.1 Commonwealth/Local Government Relationships

5.1.1.1 Ministerial Forums

Local government is a full member of the Council of Australian Governments (COAG).

The main specific inter-governmental forum for information sharing and development of nationally-significant policy on local government has been the Local Government Ministers' Conference (LGMC), supported by a high-level officer group known as Local Government Joint Officers' Group (LOGJOG). As a result of the COAG review of Ministerial Councils in 2001, LGMC has been combined with the Planning Ministers Conference to form the Local Government and Planning Ministers' Council. This new Council has not yet met.

5.1.1.2 Regional Development Council

The Regional Development Council (RDC) is a newly established Ministerial Council also formed as a result of the COAG review in June 2001. The RDC comprises regional development Ministers from all States and Territories and ALGA. It is chaired by the Deputy Prime Minister, the Hon John Anderson MP. The RDC is the first COAG established Ministerial Council that will focus solely on regional issues.

In 2000 the Deputy Prime Minister chaired two meetings of regional development Ministers and ALGA that began to work on a whole of government approach to regional development.

The aim of the RDC is to facilitate more effective cooperation across all spheres of government in order to achieve sustainable economic, social and environmental outcomes for regional Australia.

The Standing Committee on Regional Development (SCORD) is the committee of senior officials that supports the RDC.

At its May 2002 meeting, SCORD agreed to revise the Framework for Cooperation and set up a number of working groups to progress issues before the inaugural meeting of the RDC scheduled for December 2002. The working groups include:

- A group chaired by the Commonwealth, under the revised Framework for Cooperation, to explore and develop opportunities for joined up work;
- A group to further examine ways to attract and retain professional and other skilled people in regional Australia. This work will include the issue of workforce accommodation; and
- A group to investigate and develop suggestions on a Victorian coordinated paper on regional infrastructure with a view to achieving practical outcomes.

ALGA as a full member of the Council is ensuring that local government is represented on each of these working groups.

5.1.2 State/Local Government Relationships

The instigation of State-local government partnership agreements is one of the most interesting local government reforms of recent years. Partnership agreements are in place or under negotiation in Tasmania, South Australia, Western Australia and Queensland. Although the nature of the agreements varies, they represent an attempt to clarify priorities and rationalise the distribution of powers and resources between State and local governments. Partnership agreements enable States and local government to respond to the articulated needs of their communities through an agreed plan and dedicated resources. They are another important step towards improving the relationship between local government and other spheres of the government in the future.

5.2 Making Better Use of Resources/Better Quality Services

5.2.1 Performance Indicators for Local Government

In October 1997 the Industry Commission released its report *Performance Measures for Councils: Improving Local Government Performance Indicators*. The Industry Commission found that a nationally consistent approach to performance measurement was not then warranted. It found that there would be 'considerable net benefit to the community from improving the current State and Territory performance measurement systems.' Appendix 5 provides the States' updates on progress towards developing performance indicators for local government.

5.2.2 Local Government Incentive Programme

In 1999, the Federal Government introduced a \$7 million, two year Local Government Incentive Programme (LGIP). This programme aimed to reinforce support for councils to improve their service delivery. In 1999-2000, grants were targeted to assist councils prepare for implementation of the GST legislation to take effect on 1 July 2000.

In 2000-01, the focus of LGIP was on three national priority areas:

- Activities that led to the adoption of best practice and sharing of technical expertise across councils;
- The promotion of an enhanced role for local government in leading their communities; and
- Increasing the capacity of local government to contribute to regional development.

The funding has now been allocated. In the context of the 2001-02 Budget, the Government decided not to initiate a new local government specific programme. Many projects that were eligible for funding under an LGIP type programme are now being funded under alternative Commonwealth Programmes, such as the Regional Solutions Programme.

5.2.3 National Awards for Local Government

The National Awards for Innovation in Local Government is a Federal Government initiative established in 1986 to foster and acknowledge innovation and continuous improvement in local government. In 2002 the Awards were expanded to also recognise excellence as well as innovation.

Now known as the National Awards for local government, the Awards highlight the excellent and innovative work being undertaken by local government in communities across Australia to improve business practice within councils and service delivery to their communities. The Awards recognise ingenuity, resourcefulness and self-reliance and identify and promote councils who are finding new ways of delivering services and developing local solutions to complex and challenging problems.

In 2002 the Awards attracted around 370 entries in 11 categories, an increase of 25% over the previous year. The categories cover council core business, business and regional development, and community services aimed at building sustainable Australian communities.

Specifically the categories for 2002 are: Business and Regional Development; Community Services; Engineering, Infrastructure, Planning and Urban Design; the Environment (two categories); Financial Management; Health and Aged Care; Information Technology; Organisational Practices and Youth Services; and a Special Award for Strengthening Indigenous Communities.

DOTARS manages the National Awards for Local Government and the associated Leading Practice Guides and Leading Practice Seminar Series.

The Leading Practice Guides, which are published each year, showcase the entries received for the Awards in that year and promote an exchange of information and expertise in local government. Councils utilise the Guides as a source of practical information about leading practice in the local government environment.

Through the Leading Practice Seminar Series winners of the Awards also share their achievements and their experiences. The seminars provide the opportunity for councils to come together to hear from their colleagues and to discuss how particular project case studies might apply in their particular situation. Well over 100 councils around Australia have benefited from this exchange of knowledge and expertise since the seminars were started in 2000. The seminars are run as a partnership between DOTARS and host councils, Regional Organisations of Councils or Local Government Associations.

5.2.4 Structural Reform

As detailed under TOR 1, local government structural reform embraces a number of initiatives including cooperative service provision, resource sharing, joint service

delivery enterprises, boundary change and amalgamations. The discussion below focuses on amalgamations.

All States have experienced local government amalgamations, a process that has been occurring since the early 1900s. In 1991 there were 826 local governments nationally, in 1995 there were 774 and in 2002, 723.

There are a number of suggested benefits of amalgamations. In general, larger councils have a more secure and adequate financial base, are better able to plan and to contribute to economic development, are more effective community advocates, and interact more effectively with government and business. Structural reform can deliver economies of scale and can enable councils to employ a wider range of professionals, so they can offer a wider range and usually higher quality of service.

Small rural councils in Australia's inland face a multitude of challenges including depopulation, a low rate base, deteriorating infrastructure and demand for better services. Merging can bring greater financial strength and stability to these rural councils.

The 2000 Report of the Commission of Inquiry into Windouran Shire Council's Finances, highlights the dangers of doing nothing about structural reform (p. 6). It found the Council's:

Financial viability has been diminishing since at least 1991 from when it has progressively been unable to provide or maintain the quality of services previously delivered to its community. At the beginning of the year 2000, Council had no financial reserves, a comparatively low general rate regime, ageing plant and equipment, a minimal workforce and a deteriorating road network.

The *Doing More with Less: Tensions and Change in South Australia* study (Centre for Labour Research, 2001, p. 42) found the benefits of amalgamation in South Australia included better planning of council activities; more services; better use of capital equipment; better technology; economies of scale; more expertise; and improved customer service focus. This study also found that there were some disadvantages including loss of experience and expertise through staff loss; job insecurity; some confusion about job role; an 'us and them' mentality between pre-amalgamation entities; a drop in capital expenditure; cuts to road construction and road maintenance; and a drop in outside staff numbers yet greater areas to deal with.

However, it may be that council amalgamations are not practical for large councils in sparsely settled areas, such as north-western New South Wales, Western Queensland, rural parts of the Northern Territory and areas east of the wheat belt in Western Australia. The distances involved in fulfilling council duties generally make such mergers uneconomic. It should be acknowledged that amalgamation may not always be the appropriate response to the need for structural reform, particularly for small remote councils who may be separated by vast distances. In these cases a mentoring arrangement with a larger more prosperous council, and or membership of a regional organisation of councils may assist in addressing the challenges presented by size and isolation.

The Federal Government has supported voluntary amalgamations in the past, through the provision of almost \$1.3 million under the Local Government Development Programme¹ to facilitate council mergers in South Australia, New South Wales, Western Australia and Tasmania.

The 2001 Sproats Inquiry² found that reform required more than just mergers. People had a strong allegiance to suburbs rather than to their council area. The Inquiry found that councils need to take a more strategic view of their responsibilities and prepare strategic plans to guide their communities. The Inquiry recommended that reform be rejuvenated through a partnership between the State Government and the community and concluded that councils had shown they were unable, through voluntary mergers, to sufficiently advance reform.

5.2.5 An Alternative Approach Between the Commonwealth and Local Governments

The *Roads to Recovery Programme* is an example of how the Commonwealth's relationship with local government, at least in terms of funding, has evolved. Through this Programme, funds are paid directly to local government. DOTARS used the State Local Government Grants Commissions' allocations as an initial base for determining the grants to councils. This represents a significant shift to a more direct relationship between the Commonwealth and local government. Many councils have reported favourably on this direct relationship.

Roads to Recovery Programme details are provided in Appendix 3, and the Programme as the basis for a funding model is discussed in more detail in TOR 6.

At present, there are a number of Commonwealth programmes, in addition to the financial assistance grants (eg. Regional Flood Mitigation programme and Natural Disaster Research Management Studies Programme) that involve payment of funding through the States to local government. This arrangement facilitates State Governments matching (and in some cases exceeding) Commonwealth funding for projects for the purpose of increasing the pool of funds available. Any proposal to pay such funding direct to local government will need to take into account other options for securing State commitment and funding to such programmes.

¹ This Programme ceased in 1998-99. A new local government programme, the LGIP began in 1999.

² In October 2000, Professor Kevin Sproats was appointed by the NSW Government as Commissioner of an Inquiry to review the structure of local government in the inner Sydney areas of Botany Bay, Leichhardt, Marrickville, South Sydney, Waverley and Woollahra. The Inquiry concluded in April 2001.

5.3 Conclusion

The information in TOR 4 and this section suggests that there is scope to rationalise roles and responsibilities between the levels of government, whilst recognising that there will always be some complexity around the division of roles and responsibilities. A co-operative approach between all levels of government will greatly enhance the prospect of successful outcomes.

The existing processes for addressing the roles and responsibilities are therefore very important, particularly given the changing nature of service delivery for local governments and emerging issues such as natural resource management. It is suggested that all States should be encouraged to look at the successful State/local government partnerships. There could also be scope for the Commonwealth to look at these agreements as a potential model for Commonwealth and local government or Commonwealth, State and local government agreements.

As with all governments, local government must also continue to make better use of resources, in order to provide better quality services to communities. This is an ongoing process and can be achieved through some of the mechanisms outlined in this TOR and in TOR 1. These areas of reform can in some cases be achieved by local government alone, in other areas, the States will also need to play a role. The Commonwealth also continues to play a role, for example in promoting best practice through leading practice seminars.

A rationalisation of roles and responsibilities would require co-operation and input from all stakeholders. Any agreed model would require the flexibility to adjust to the changing political environment and community needs. DOTARS looks forward to the possibilities that may be identified through the Inquiry, for rationalising roles and responsibilities to achieve better use of resources and better quality services to local communities. It is also recognised that some local governments (particularly those whose capacity is already challenged) may not be in a position to rationalise or change their role to any great extent.

TOR 6 The findings of the Commonwealth Grants Commission 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 material contained in this section should be read in conjunction with the material in Appendix 2 and 7 as this provides the background information and context for the findings of the Commonwealth Grants Commission Review of the *Local Government (Financial Assistance) Act 1995* (the CGC Review).

6.1 Review of the Operation of the 1995 Act

Section 17 of the *Local Government (Financial Assistance) Act 1995* requires the Federal Local Government Minister to undertake a review of the operation of the Act by 30 June 2001. In June 2000, the then Federal Local Government Minister asked the Commonwealth Grants Commission (CGC) to undertake the review and their final report was handed to the Government in June 2001. The report is a public document.

As part of the Government's commitments in relation to local government for the 2001 election, (*Building Stronger Local Government*, p. 2) there was a commitment to:

Consult with State Governments and Local Government Associations when considering the recommendations of the Commonwealth Grants Commission's review of the *Local Government (Financial Assistance) Act 1995* prior to making any changes to the current arrangements.

The Commonwealth has not as yet formally responded to the findings of the CGC Review and is relying on the consultations and outcomes of this Inquiry to assist in informing its response to the CGC findings. Copies of the Review have been provided to the Inquiry Committee for reference.

6.2 CGC Review - Terms of Reference

Section 17 of the 1995 Act determined the issues to be examined. The terms of reference for the review also focussed on the changes that were introduced in the 1995 Act. These changes included:

- The statement of the purposes in the Act (section 3(2)) for the provision of financial assistance;
- The statement of Commonwealth goals in the Act (section 3(4));
- The requirement in the Act for National Principles (section 6(1)); and
- A requirement for Local Government Grants Commissions to comply with the National Principles when they allocate grants to councils (sections 11(2)(d) and 14(2)(c)).

The Terms of Reference are given below.

CGC Review — Terms of Reference

The review under Section 17 of the Local Government (Financial Assistance) Act 1995 will examine and report on:

- (a) the effectiveness of the current arrangements under the Act to achieve the purposes of the Act and the goals in providing the grants that are referred to in Section 3 of the Act;
- (b) the appropriateness of the current National Principles and, in particular, the retention of or variations of the minimum grant for the general purpose component in Section 6 of the Act;
- (c) the consistency with the National Principles of the methodology and policies used by each of the State and Territory Grants Commissions in distributing funds to councils;
- (d) As required by Section 17 of the Act, the review shall also examine and report on:
 - (i) the effectiveness of the arrangements under this Act in relation to ensuring that the allocation of funds for local government purposes is made on a full horizontal equalisation basis as mentioned in paragraph 6(2)(a); and
 - (ii) the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the States to local governing bodies; and
 - (iii) the implications of any changes in the functions or responsibilities of local government bodies; and
 - (iv) the eligibility for assistance under this Act of bodies declared by the Minister under Section 4 to be local government bodies.

The Review will not address the interstate distribution of the general purpose and local road grants or the quantum of funds available under the Act.

6.3 Review Findings

The findings from the CGC Review are set out in full from the Commission's final report (CGC, 2001, pp ix-xiv) at Appendix 7.

6.4 DOTARS' Proposal for Action Required to Implement Review Findings

In the review, the CGC found that the current arrangements have broadly achieved the Commonwealth's purposes. To implement the CGC findings, the Department proposes that the following 26 actions would need to be taken. These are presented to the Committee for consideration and comments in the absence of a yet to be formulated Federal Government response to the Review.

Overview

1. The objectives of the Commonwealth in providing untied financial assistance to the States for local government purposes under the Act should be specified. The objectives of the grants should be to provide:
 - A share of financial assistance grants to all Local Governing Bodies (LGBs);
 - A contribution to the costs faced by LGBs in maintaining their local roads; and
 - Relatively greater financial assistance to those LGBs, which, because of their greater costs in providing services or because of their more limited ability to raise revenue, are relatively more disadvantaged than other LGBs.
2. The current arrangements should be changed by:
 - Creating a separate pool of financial assistance for each of the three Commonwealth's objectives, with appropriate National Principles to guide Local Government Grants Commissions (LGGCs) in allocating each pool to LGBs; and
 - Requiring a more consistent implementation of the National Principles by LGGCs to ensure the Commonwealth's intentions are effectively achieved.

Three Pools

3. A separate pool for each objective would involve establishing three pools of financial assistance instead of the current two pools. The pools would be:
 - A Per Capita pool;
 - A Local Roads pool; and
 - A Relative Need pool.
4. The provision of at least a minimum level of assistance to all LGBs should be retained and provided through the separate Per Capita pool. The purpose of the Per Capita grant pool would be 'to provide an equal per capita amount of assistance to each local governing body to improve its capacity to provide services'. The Per Capita pool would be funded with what would have been 30 per cent of the General Purpose pool.
5. The separate Local Roads pool should continue. The purpose of the Local Roads pool would be 'to improve the capacity of all local governing bodies with responsibility for local roads to maintain those roads'.
6. The Relative Need pool should be intended to provide assistance to disadvantaged LGBs. The purpose for the Relative Need pool would be 'to provide additional assistance to needier local governing bodies to improve their capacity to provide services'. The establishment of this pool would be funded from what is left of the present General Purpose pool after the proposed Per Capita grant pool is established – that is, 70 per cent of the present General Purpose pool.
7. The process described by the Act as horizontal equalisation is about assessing relative needs, with the assessment of those needs being based on equalisation principles. The language of the Act should be amended to make the real intention of this purpose clear. The expression of horizontal equalisation should be removed from the Act. The concept of relative need using equalisation principles should be used in place of horizontal equalisation.

Purposes

8. Establishing a separate Per Capita pool and a separate Relative Need pool would make the existing purpose of ‘improving the financial capacity of local governing bodies’ unnecessary and it could be deleted from the Act.
9. The purpose of ‘improving the efficiency and effectiveness of local governing bodies’ should be removed because it is conceptually inconsistent with arrangements that provide for the distribution of untied grants. That is, no purpose can be assigned to untied grants.
10. Similarly, the purpose of ‘improving the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities’ should be removed because it is conceptually inconsistent with arrangements that provide for the distribution of untied grants.
11. The Act should continue to provide for:
 - The formulation of National Principles to guide States’ allocation of the funds to LGBs;
 - An annual report to the Parliament (called the National Report) about the operation of the Act, including commentary on the States’ allocation of the funds to LGBs.

Goals

12. The Act should continue to specify goals relating to:
 - increasing the transparency and accountability of the States in respect of the allocation of these funds; and
 - improving the consistency in the methods by which the States allocate the Relative Need and the Local Roads pools.
13. The current transparency and accountability goal is being achieved to a limited extent but further improvements can be made. LGGCs should provide more information in their annual reports (see paragraph 14) and the National Report should provide commentary on the approaches used by LGGCs to enhance the transparency and accountability of their processes (see paragraph 23).
14. As a minimum, the LGGCs’ annual reports should provide information on:
 - The grant outcomes of all LGBs in the State;
 - The expenditure and revenue assessments of all LGBs in the State; and
 - The key drivers of LGGCs’ expenditure and revenue assessments.
15. Understanding of the process would be improved if the National Report provided commentary on the LGGCs’ approaches, explained how those approaches relate to and satisfy the National Principles, and analysed the influences on and trends in grant outcomes across LGBs and States.
16. Consistency of methods is about ensuring the methods and policies of LGGCs are consistent with the National Principles rather than achieving uniformity of

LGGCs' methods and policies. The language of the Act should be amended to make the intention of this goal clear.

National Principles

17. The Per Capita National Principle should instruct the LGGCs to distribute the Per Capita pool on the basis of population. The proposed Per Capita National Principle would be:

Grants to local governing bodies from the Per Capita Pool shall be allocated to each local governing body on the basis of its population.

18. The existing Local Roads National Principle should be retained with minor simplifying amendments to instruct the LGGCs to distribute the pool on the basis of relative road needs. The amended National Principle for the local roads pool would be:

Grants to local governing bodies from the Local Roads Pool shall be allocated on the basis of the relative road needs of each local governing body for roads expenditure. Local governing bodies would be assessed to have greater relative need if, for reasons beyond their control, they faced higher than average costs of providing road services.

19. The Relative Need Principle should instruct LGGCs to distribute the Relative Need pool using assessments of relative need based on equalisation principles. The proposed National Principle would be:

Grants to local governing bodies from the Relative Needs Pool shall be allocated using assessments of relative need based on equalisation principles. Relative needs of local governing bodies will be measured through a comprehensive assessment of the expenditure they would incur in providing a standard level of services and the revenues they could access from a standard effort. Local governing bodies will be assessed to have greater relative need if, for reasons beyond their control, they face higher than average costs of providing services or a reduced capacity to raise revenue.

20. The Other Grants Support Principle is an essential element of the equalisation principle and, therefore, is an appropriate Principle for the Act's equity purpose. It is not being consistently implemented by LGGCs and that is impacting on equalisation outcomes. The language of this Principle is not sufficiently clear and it should be improved to make the concept easier for LGBs to understand and for LGGCs to implement consistently. The proposed National Principle would be:

The assessment of a local governing body's relative need based on equalisation principles is to include a recognition of any grants, including the Per Capita and Local Roads grants provided by this Act, received by local governing bodies and used to finance expenditure for which a relative needs assessment is made.

21. The Aboriginal Peoples and Torres Strait Islanders Principle should be strengthened to make explicit that the needs of all Indigenous people must be reflected in the assessments of the LGGCs. The proposed National Principle would be:

The assessment of a local governing body's relative need based on equalisation principles is to include recognition of the needs of all Indigenous people within its boundaries. In this respect, local governing bodies will be assessed to have greater relative need if, for reasons beyond their control, they face a higher than average demand for services, higher than average costs of providing services or a reduced capacity to raise revenue, as a result of their Indigenous population.

22. The Effort Neutrality Principle is appropriate and understood by LGGCs. The proposed National Principle would be:

An effort or policy neutral approach will be used in assessing the full range of the expenditure local governing bodies would incur in providing a standard level of services and the revenues they could access from a standard effort. An individual local governing body's policies or choices in relation to the services it provides or the revenues it accesses should not influence the level of grant it receives.

National Report

23. The National Report needs to play a much stronger monitoring role. Areas that it should monitor and report on include:

- The extent to which LGGCs' assessment methods and approaches are consistent with the National Principles;
- The extent to which LGGCs are modifying their equalisation assessments to deliver greater stability in annual grants;
- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people;
- The performance of LGBs in providing services to Indigenous people (performance measures should be developed for this purpose);
- The extent to which LGGCs' processes explain how individual grants have been calculated and provide sufficient information to enable LGBs to calculate them if they wish; and
- The effectiveness of the proposed transitional arrangements.

Announcing Grant Allocations

24. Final grant allocations to each LGB cannot be announced before the Commonwealth brings down its Budget in May, but it should be possible to announce them very shortly after that time. To do so would require:
- LGGCs to have their grant recommendations completed before May (based on the previous year's national pool);
 - A quicker approval process — the process by which the Commonwealth approves the LGGCs' recommendations; based on a study/assessment of their methods rather than their results; and
 - Final grant allocations to be determined using the level of funding announced in the Commonwealth budget.

There should be no adjustment in the following year for changes in these estimates. This would greatly simplify the process.

Eligibility for Assistance

25. At present, the Commonwealth Minister can declare an LGB only at the request of a State Minister. Either Minister should be able to initiate a proposal for a declaration but both Ministers should have to agree to that declaration. The current Act is not clear on whether an existing declaration can be revoked. There is no reason why the Commonwealth and State Ministers should not be able to agree to revoke an existing declaration.

Transition Arrangements

26. Acceptance of the recommendations would lead to changes in some of the assessment practices of LGGCs and these changes will in turn change the grant allocations of LGBs. A five year transitional period would be allowed to give:

- LGGCs time to change their assessment methods; and
- LGBs time to adjust to the change in their grant.

In summary, the CGC found ‘in broad terms’ that the current arrangements have led to a distribution of funds in line with the intentions of the Act. Their findings suggest that there should be changes to the legislation to clarify some areas of ambiguity, and strengthen the intention of the Act. The CGC also found cause for some changes to the reporting procedures in the Commonwealth’s National Report and to the reporting and administration procedures of the Local Government Grants Commissions.

6.5 Issues Raised Following the Release of the CGC Review

There appears to have been little opposition to the CGC findings that has been brought to the attention of DOTARS. DOTARS is aware that the following issues have been raised:

- The interstate distribution of the general purpose and local roads pools;
- The quantum of the funds;
- The proposal to retain the minimum grant provision;
- The proposal to use relative need using equalisation principles in place of horizontal equalisation;
- The impact on grants to councils of the proposal to split the general purpose funding pool into a Per Capita pool and a Relative Needs pool; and
- The proposal to remove the purpose of ‘improving the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities’.

DOTARS considers that a number of these issues need further careful consideration and welcomes the views of this Inquiry on them.

6.6 Matters for Consideration

Issues that may be raised with the Inquiry Committee in relation to the Financial Assistance Grants include:

6.6.1 Interstate Distribution

The distribution of FAGs between States has been an issue raised by some councils over a number of years. The terms of reference for the CGC Review explicitly precluded the CGC from examining the interstate distribution of these grants in that review.

6.6.1.1 General Purpose Grant

The general purpose grants are currently distributed between States on the basis of population. But this has not always been the case. For 1976–77 and 1977–78, the legislation specified the interstate distribution of the funds. The CGC recommended the percentage distribution of general purpose grants between States and this was applied from 1978–79 until 1985–86.

Following the *National Inquiry into Local Government Finance* (the 1985 Self Inquiry), the Commonwealth introduced new arrangements from 1986–87. The previous shares were phased out in favour of an equal per capita distribution to be introduced by 1989–90. However, the Self Inquiry's first preference had been for the CGC to review the interstate distribution before the grants were determined for 1986–87.

In early 1990, the CGC was asked to review the interstate distribution in time for consideration at the 1991 Premiers' Conference. The CGC prepared two sets of relativities. Both implied a large redistribution of funds away from New South Wales and Victoria towards the less populous States. The CGC did not recommend that either set of relativities be adopted. The relativities were subject to important reservations about the appropriateness of the methodology being used and the quality and availability of relevant data and highlighted the complexities of moving from a per capita basis to a horizontal equalisation distribution.

The CGC believed that suitable relativities could be determined provided there were improvements in data sources and refinements in methodology. However, it advised of issues that governments would need to take into account to change from the per capita distribution. These were:

- (i) The per capita distribution is simple and predictable;
- (ii) The costs for the States and the Commonwealth to change to an equalisation system relative to the size of the pool; and
- (iii) A move to an equalisation basis would be disruptive to councils in New South Wales and Victoria.

The current requirement in the 1995 Act for the distribution of grants within States being, as far as is practicable, on a horizontal equalisation basis aims to bring all councils in that State up to the same fiscal level. However, the actual effect of distributing general purpose grants between States on a per capita basis means councils in different States may be brought up to different fiscal levels. The distribution of general purpose grants on an equal per capita basis does not recognise the differences between local government sectors in their States in their capacity to raise revenue and their expenditure needs.

This deficiency is most likely to occur in the Northern Territory where there is a very low population density, a relatively long length of road per capita, a relatively high proportion of people in remote areas and a substantial population living in community councils that need high levels of financial support. For instance, in 2001–02 the NT with 196,000 people received \$9.7 million in general purpose grants. However, Greater Geelong, in Victoria, with 188,000 people received \$10.8 million and Wollongong, in New South Wales, with 186,000 people received \$9.5 million.

As detailed, the distribution of grants between States on a per capita basis, rather than horizontal equalisation, evolved as a result of difficulties in determining the latter.

6.6.1.2 Local Roads Grants

Prior to 1991–92, the local roads grants were paid as tied grants under the Australian Land Transport Development Act 1988 to the States. The majority of these funds were passed to councils on a formula basis approved by the relevant Federal Minister. Some funds were retained by States for local roads under their control. The interstate distribution of the local roads grants was set in the legislation.

These fixed state shares were retained when the Special Premiers' Conference in 1990 decided to provide the local roads funding as untied grants under the 1986 Act. Local roads funding has continued to be separately identified with the same fixed state shares.

Table 6.1 shows the differences in the distribution of general purpose grants, local roads grants and financial assistance grants between States. For comparison purposes, the distribution of State GST revenue is also shown.

Table 6.1: A Comparison of State Shares for Financial Assistance Grants and GST Revenue, 2002-2003

State	Estimated State Shares 2002-2003			
	General purpose grants	Local roads grants	Financial assistance grants	GST revenue
NSW	33.9%	29.0%	32.4%	30.5%
Vic	24.8%	20.6%	23.5%	21.7%
Qld	18.7%	18.7%	18.7%	19.1%
WA	9.8%	15.3%	11.5%	9.6%
SA	7.8%	5.5%	7.1%	9.2%
Tas	2.4%	5.3%	3.3%	3.7%
NT	1.0%	2.3%	1.4%	4.3%
ACT	1.7%	3.2%	2.1%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: DOTARS and 2002–03 Budget Paper 3, Table 4.

States have pointed to anomalies in this distribution. The share of local roads grants going to South Australia appears low as is the share of general purpose grants going to the Northern Territory.

Local government financial assistance grants are treated by the Commonwealth as Special Purpose Payments and paid under section 96 of the Constitution. It is for this reason that it has been the practice for the Commonwealth to obtain the agreement of the States in an intergovernmental forum dealing with Commonwealth-State financial relations before any changes are made to the interstate distribution for local government financial assistance grants. If agreement is not achieved, then the existing distribution mechanism is retained.

For instance, it was the 1985 Premiers' Conference that agreed to changes in the distributional arrangements for Local Government financial assistance grants following the recommendations in the 1985 Self Report. In 1989, it was the agreement of the Premiers' Conference that permitted the Commonwealth Grants Commission to undertake its review of the interstate distributions for the Local Government financial assistance grants. In 1991, a Special Premiers' Conference agreed to the local roads grants becoming untied and paid under the financial assistance grants legislation. More recently, changes to the current interstate distribution of Local Government grants were extensively debated at a Special Premiers' Conference as part of the negotiations over the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

The interstate distribution of the *Roads to Recovery* funds differs from that of the local roads grants (see Table 6.2). In the case of *Roads to Recovery* funds, these grants are paid directly to councils, bypassing the States. The interstate distribution is different to financial assistance grants identified for roads, taking into account population and local road length as well as the shares under the local roads grants.

Table 6.2: Interstate Distribution of the Local Roads Grants and the Roads to Recovery Grants.

State	Local roads grants	Roads to Recovery grants
NSW	29.0%	28.3%
Vic	20.6%	20.8%
Qld	18.8%	20.8%
WA	15.3%	15.0%
SA	5.5%	8.3%
Tas	5.3%	3.3%
NT	2.4%	1.7%
ACT	3.2%	1.7%
Total	100.0%	100.0%

Source: DOTARS.

6.6.1.3 Comparison across States of Grants to Council by Classifications

Table 6.3 sets out the average general purpose grant per capita to councils by State and the Australian Classification for Local Government (a description of the ACLG is in Appendix 6); and Table 6.4 provides the average local roads grant per kilometre. The ACLG has been developed to aid comparison of councils with like councils, and is used here to indicate trends and allow comparison of grants to individual councils with the average for their category.

The results in Tables 6.3 and 6.4 suggest there are some major differences in outcomes between States. Divergence can occur because of:

- Differences in the interstate distribution of the grants between States;
- Differences between States for factors such as isolation, population distribution, local economic performance, daily or seasonal population changes, age of population and geographic differences; and
- Variations between States of the relative ranking on the basis of need of the different ACLG categories.

Notwithstanding the capacity of the ACLG system to group like councils, it should be noted that there remains considerable scope for divergence within these categories, and for this reason the figures should only be taken as a starting point for inquiring into grant outcomes.

Table 6.3: Average General Purpose Grant Per Capita to Councils by State and ACLG Category 2000–01 (\$)

ACLG category	NSW	Vic	Qld	WA	SA	Tas	NT	Average
Urban Capital City (UCC)	14.54	14.56	14.60	14.56	30.52	14.50	19.92	15.14
Urban Development Small (UDS)	14.54	15.13	n/a	15.20	15.22	n/a	n/a	14.97
Urban Development Medium (UDM)	17.66	31.76	15.08	14.56	16.26	n/a	n/a	18.46
Urban Development Large (UDL)	21.00	29.25	n/a	14.56	31.23	n/a	n/a	26.19
Urban Development Very Large (UDV)	24.28	30.88	14.60	14.56	n/a	n/a	n/a	26.23
Urban Regional Small (URS)	73.57	94.21	105.07	75.58	72.56	44.26	38.68	78.47
Urban Regional Medium (URM)	58.54	85.27	32.49	26.38	n/a	22.50	n/a	55.92
Urban Regional Large (URL)	72.68	81.35	18.79	n/a	n/a	n/a	n/a	40.77
Urban Regional Very Large (URV)	50.30	54.01	14.60	n/a	n/a	n/a	n/a	38.09
Urban Fringe Small (UFS)	n/a	92.10	48.86	17.95	30.88	51.02	41.66	48.29
Urban Fringe Medium (UFM)	39.15	48.25	18.32	24.69	57.58	n/a	n/a	34.72
Urban Fringe Large (UFL)	63.06	39.26	14.60	15.22	n/a	n/a	n/a	26.72
Urban Fringe Very Large (UFV)	32.79	44.11	24.36	14.56	37.41	n/a	n/a	33.66
Rural Significant Growth (RSG)	n/a	44.52	37.37	53.11	n/a	n/a	n/a	47.51
Rural Agricultural Small (RAS)	364.67	n/a	1257.06	311.60	278.45	269.55	n/a	402.05
Rural Agricultural Medium (RAM)	233.23	n/a	364.75	129.03	164.41	138.68	n/a	237.99
Rural Agricultural Large (RAL)	170.54	172.81	138.74	177.90	114.45	94.79	n/a	147.09
Rural Agricultural Very Large (RAV)	119.51	106.87	68.97	119.51	76.28	72.21	41.61	93.58
Rural Remote Extra Small (RTX)	311.27	n/a	3945.75	2195.90	264.89	n/a	188.69	819.92
Rural Remote Small (RTS)	n/a	n/a	1977.39	715.46	n/a	n/a	110.64	531.50
Rural Remote Medium (RTM)	645.76	n/a	783.79	399.69	302.18	n/a	101.01	453.45
Rural Remote Large (RTL)	298.07	n/a	330.46	269.77	151.09	n/a	n/a	277.07
Average	48.29	48.29	48.29	48.29	48.29	48.29	48.29	48.29

Source: DOTARS.

Table 6.4: Average Local Roads Grant Per Kilometre to Councils by State and ACLG Category 2000–01 (\$)

ACLG category	NSW	Vic	Qld	WA	SA	Tas	NT	Average
Urban Capital City (UCC)	2,032.27	1,661.80	1,657.06	3,400.80	1,265.28	3,048.93	3,264.71	1,844.38
Urban Development Small (UDS)	1,739.90	1,508.25	n/a	1,523.41	1,365.46	n/a	n/a	1,559.51
Urban Development Medium (UDM)	1,791.07	1,588.18	1,682.35	1,471.90	1,508.55	n/a	n/a	1,630.90
Urban Development Large (UDL)	1,717.85	1,429.63	n/a	1,361.57	1,277.75	n/a	n/a	1,433.50
Urban Development Very Large (UDV)	1,706.84	1,459.36	1,692.53	1,423.76	n/a	n/a	n/a	1,566.93
Urban Regional Small (URS)	1,015.58	538.17	506.14	827.27	667.67	1,777.00	3,065.11	714.90
Urban Regional Medium (URM)	1,121.03	607.91	822.87	795.92	n/a	2,229.70	n/a	861.40
Urban Regional Large (URL)	1,158.77	1,063.72	1,057.47	n/a	n/a	n/a	n/a	1,071.53
Urban Regional Very Large (URV)	1,398.97	1,490.92	1,645.87	n/a	n/a	n/a	n/a	1,507.63
Urban Fringe Small (UFS)	n/a	832.22	504.75	1,158.15	1,263.17	1,307.59	3,308.95	760.28
Urban Fringe Medium (UFM)	1,164.36	958.02	745.88	1,105.71	593.74	n/a	n/a	922.04
Urban Fringe Large (UFL)	1,191.73	1,636.13	1,119.26	1,222.21	n/a	n/a	n/a	1,306.62
Urban Fringe Very Large (UFV)	1,399.03	1,202.72	976.40	1,312.15	1,007.39	n/a	n/a	1,242.61
Rural Significant Growth (RSG)	n/a	856.51	492.60	850.59	n/a	n/a	n/a	750.08
Rural Agricultural Small (RAS)	569.92	n/a	343.68	374.07	166.22	947.77	n/a	349.15
Rural Agricultural Medium (RAM)	605.05	n/a	360.84	484.73	137.94	1,097.26	n/a	446.88
Rural Agricultural Large (RAL)	628.28	287.12	393.19	507.89	198.30	1,449.66	n/a	456.24
Rural Agricultural Very Large (RAV)	685.86	521.09	418.67	445.46	231.87	1,422.47	1,950.01	530.98
Rural Remote Extra Small (RTX)	n/a	n/a	337.47	260.60	345.03	n/a	417.06	313.97
Rural Remote Small (RTS)	548.62	n/a	334.38	303.55	105.49	n/a	508.53	344.03
Rural Remote Medium (RTM)	548.62	n/a	334.38	303.55	105.49	n/a	508.53	344.03
Rural Remote Large (RTL)	566.11	n/a	349.97	483.79	0.00	n/a	n/a	433.92
Northern Territory Trust Fund	n/a	n/a	n/a	n/a	n/a	n/a	407.40	407.40
Average	831.26	664.51	529.35	513.38	301.76	1,536.32	761.12	621.09

Source: DOTARS.

6.6.2 Horizontal Equity and the Minimum Grant

The allocation of general purpose grants so that all councils receive at least a minimum per capita share has been a feature of local government financial assistance grants since the 1970s.

Minimum grant councils are those councils assessed by the State Grants Commissions as being ‘less needy’ than other councils in the State. That is, they have more than sufficient revenue raising capacity (when the minimum grant is included) to meet assessed expenditure needs. Typically, minimum grant councils are councils in the ‘wealthier’ areas of capital cities. In 2000-01, they received around \$14.50 per capita compared with an average grant of around \$48.30.

Removing the current minimum grant requirement and re-allocating the freed-up funds is an option that could be considered. It would be consistent with an allocation of the general purpose grant on the basis of relative need. Such a change would not mean that all the existing minimum grant councils would receive no general purpose grants as many councils would receive a grant below the current minimum grant level. Presumably, all councils would still receive a local roads grant.

From the CGC Review, removal of the minimum grant would allow around 8.7 per cent (or \$74.7 million of the general purpose grants in 1999-2000) to be available for re-allocation. These funds would be available to be re-allocate over the remaining councils under the existing methodology. On average, this would be about \$120,000 per council for around 630 councils.

Whilst some councils argue that maintaining a minimum grant principle reduces the capacity of the financial assistance grants to equalise, many minimum grant councils argue that they are a means of implementing the Commonwealth's intention that every council receives a share of the assistance. Chapter 8 of the Working Papers for the CGC Review provides a thorough analysis of the issues, including numbers of councils on minimum grant, and models of impacts on changing this national principle.

6.6.3 Grants Commissions Methodologies

Given the expanding role of local government as described in TOR 1, 3 and 4 it is essential that the grants commissions undertake regular reviews of their methodologies to ensure that measuring expenditure need (and assessing revenue raising capacity) reflects both the diverse and expanding role of local government. The role of the grants commissions is complex, given the changing nature of local governments, the diversity of local governments and issues such as the availability of current data. The Working Papers for the CGC Review discuss the grants commissions methodologies in detail, and should be referred to.

As an example of this, some excerpts from the Western Australia Local Government Grants Commission 2000-01 Annual Report highlight this issue. These excerpts are a summary of the submissions received from local governments, and the response from the grants commission.

The Towns of Kondinin, Laverton, Yilgarn, and Bruce Rock, submitted that 'as a result of isolation , [the] Shire[s] have had to provide facilities and incentives to attract a resident doctor'. The Commission (p. 53) responded that

The Commission felt that inclusion of this allowance would formalise local government responsibility in this area, and may encourage further abrogation by State and Commonwealth governments. The Commission resolved to not introduce a Medical factor for the 2000/2001 determinations, based on the view that there was not enough objective information upon which to base a factor and it is not core local government business.

Albany and Bunbury argued that the towns are regional centres which are required to provide a wide range of services to residents of the cities and other local governments. The Commission (p. 50) responded

The Commission undertook some research on indicators of regional responsibility; however the Commission felt that this research was inconclusive and opted to stay with the status quo and not introduce a regional factor at present. The Commission's research on regional responsibility, facilities and factors will continue.

Note that in July 2002, the Western Australian Local Government Grants Commission announced a review of its general purpose methodology. The consideration of these issues will be part of that review.

6.6.4 Alternative Approaches to Administering the Financial Assistance Grants

6.6.4.1 Payment of Grants directly to Local Government

TOR 5 provides some discussion on alternative funding approaches. The *Roads to Recovery Programme* is an example of a Commonwealth funding programme where funds are paid directly to local government. Through this Programme all local councils receive funding for the repair, maintenance, and upgrade of their local roads.

It is possible that the Federal Government could provide the local government financial assistance grants directly to councils. Such a change would have major financial, legislative and administrative implications.

Potential benefits arising from the Commonwealth providing financial assistance grants directly to councils include:

- The direct payments could encourage greater dialogue between the Commonwealth and councils and this could assist the Commonwealth to achieve broader policy objectives through councils;
- The Commonwealth could ensure greater consistency between States in the allocation of financial assistance grants to councils; and
- Conditions could be attached to the payment of the grants so that they were no longer untied grants in the hands of councils.

If the payments were made directly to local government, separate Local Government Grants Commissions could be established in each State; or the Commonwealth Grants Commission could be given the task of determining an allocation methodology; or an alternative allocation system, for example within DOTARS, could be established.

If a single national allocation model was developed which sought to address horizontal equalisation for all councils across Australia, then the need for interstate distributions of the grant would be removed. However, there would be methodology and data issues associated with a national approach that would need to be addressed.

Any of these arrangements would impose additional costs on the Commonwealth, particularly if it wanted to ensure the body charged with determining allocations met with councils regularly and understood the particular issues affecting local government in each State. Separate data collection arrangements would also have to be instituted and new grant allocation models developed.

6.6.4.2 Tied Grants

Financial assistance grants payments could be linked to specific Commonwealth objectives (tied funding). However, a major difficulty with this approach is that it is not always possible to achieve equity objectives simultaneously with other targeted objectives.

Under current arrangements, tied grants are complex because the allocation of financial assistance grants to councils on a relative needs basis will largely over-ride the distribution of tied grants to these councils. This occurs because the financial assistance grants are intended to be allocated in a way that provides all councils in a State with the capacity to deliver the same average standard of service. In this approach, funds to a council from any source to help fund services are assumed to be available to meet the expenditure needs of the council. If a council receives a tied grant for some services, then this is taken into account as a source of revenue and so it is assumed that the council will need less of the financial assistance grants to meet its expenditure needs.

Tied funding would impact most severely on those councils that rely heavily on financial assistance grants. Typically, these are councils in rural and remote areas that have limited capacity to raise revenue from alternate sources.

6.6.4.3 Performance Based Funding

The financial assistance payments could be linked more closely with national performance indicators in some way. The emphasis here would not be on setting national benchmarks but on developing information to enable effective comparisons between States in a way which would let them benefit from the approaches and lessons learned in other States. This could be a way of overcoming a narrow State focus which is an issue in Australian local government. Again, performance based funding does not fit well with equity based distribution of funding.

6.6.4.4 A Joint Commonwealth-State Programme?

The financial assistance payments could be linked in a partnership approach with the States. For example, States could make a commitment to provide matching funds for areas of key mutual interest identified through the partnership process – with the financial assistance grants remaining untied if they did so.

This would have three results: increasing funding to local government, ensuring the States contribute adequately to local government, and the potential to address key areas of reform.

6.7 Conclusion

DOTARS proposes 26 actions to address the findings of the CGC Review of the *Local Government (Financial Assistance) Act 1995*. DOTARS looks forward to the comments from State and local governments on the findings of the CGC Review and in particular their support for, or objection to, the proposals put forward in the Review report. Stakeholder response will inform the Department in the development of a Federal Government response to the CGC Review.

The Department has also noted a number of issues with the current arrangements that the Committee could consider.

Appendix 1 - Local Government Responsibility for Infrastructure

A 1.1 Local Roads

Local roads are a major expense for local government. Local government's capacity to plan and maintain its local road system in a serviceable state is of vital importance to regional economies.

Some key challenges facing local government in maintaining and developing its local road system include:

- Maintaining roads infrastructure in a serviceable state;
- Catering for growth and improvement of the asset to deal with new settlements, higher levels of traffic and to meet community expectations of safer roads;
- In urban areas, addressing high and rising costs of urban congestion (economic, social, health, safety and environmental costs);
- Establishing a regional local road funding and planning framework that promotes network connectivity and supports the Federal Government's new land transport plan, AusLink (see TOR 3);
- Collecting and analysing more comprehensive and meaningful asset management data on local roads including road condition; road use (eg traffic flows, types of traffic, tasks), importance (economic, social, regional) and performance (economic, social, safety, environmental); and ability to meet industry needs and travel demand; and
- Addressing the concern of councils about their liability for the state of local roads and bridges in light of the Highway Rule (discussed in more detail in TOR 3).

A 1.1.1 National Picture on Road Expenditure

Australia has about 810,000 kilometres of public roads. Almost 640,000 kilometres (80 per cent) are local roads. Based on extrapolations from State studies in Vic, SA, WA and Tas (see Appendix 4) and ABS data (2000-01 Fixed Assets Net Of Depreciation ABS Cat 5512 Table 8), Australia's local road system appears to be worth between \$60 billion and \$91 billion. Under the 1991 Premiers' Conference Agreement, the Federal Government funds National Highways; State Governments fund arterial roads; and local governments fund local roads. Together they spend about \$7 billion per year on Australian roads. (BTE, 2000, p. 2)

The Federal Government makes a major contribution to local government's capacity to maintain and improve its local road system. In 2002-03, councils will receive \$445.4 million from the Federal Government in untied local road grants. The Federal Government programme, *Roads to Recovery* is also helping councils to meet their backlog of road works. 71% of *Roads to Recovery* expenditure is in rural and regional Australia. In 2002-03 the Federal Government has allocated \$202 million for *Roads to Recovery*. Councils will also benefit from funding under the Federal Government's Black Spot Programme, which has just been extended for a further four years from 2002-03 at a cost of \$180 million.

It is difficult to arrive at precise figures on spending on local roads. The Bureau of Transport Economics study *Spending on Local Roads* (completed prior to the introduction of *Roads to Recovery*) shows that in 1997–98, local government spent \$2.713 billion on local roads (p. 13). State studies show that not all this spending is on asset preservation. Some is spending on new roads. In Western Australia, for instance, about 31 per cent of local road funding is on new roads and extensions to existing roads and 69 per cent is spent on asset preservation (WA LGA, p. 1). In Victoria in 1999–2000, 68 per cent of spending was on maintaining local roads (ABS Cat 5501.2).

Spending on Local Roads shows that in 1997-98 States were providing about \$293 million to local government to assist in maintaining and developing the local road system. Since that time some States have increased their funding commitment. The Western Australian government has signed a 5 year road funding agreement with local government that sees it providing at least \$90 million per annum for local roads. This is having a major impact on local roads in that State.

As noted in TOR 1, the CGC Review found that local government is increasingly providing human services (social welfare type services) at the expense of traditional property-based services (particularly roads). Although road expenditure remains the largest function, the Commission found its importance has declined from about half of total expenditure in the 1960s to a little more than a quarter in the 1990s. However, spending on roads had increased in real terms over this period. In 1997-98 prices it had risen from \$1.8 billion in 1961-62 to \$3.3 billion in 1997-98. (CGC, 2001, Working Papers, p. 174.)

A 1.1.3 Local Government Rural Roads Strategy

In March 2000, ALGA held a Rural Roads Congress at Moree to consider rural road funding and planning issues and appointed a steering committee to progress the issue. The committee released the Moree Rural Road Funding Report at the 2nd National Rural Roads Congress in Mildura, Victoria in 2001. It recommended ways for the three spheres of government to address ageing road infrastructure in rural and remote areas.

The Mildura Congress asked the ALGA to seek a Federal commitment to a comprehensive review of the *Roads to Recovery Programme* during the next four years. The Federal Government agreed to review the programme in conjunction with the ALGA before the programme finishes in 2005. The Government also agreed that the Bureau of Transport Economics would examine how much State and Territory Governments spend on local roads to complement its research into local government expenditure on local roads.

A joint Commonwealth/ALGA review of *Roads to Recovery* is now underway. It will look specifically at the question of how well local government has spent the funds already provided to it under *Roads to Recovery*. The findings of this study will form an input into the AusLink White Paper.

A 1.2 Water, Sewerage and Waste Infrastructure

Local government is responsible for water supply in Queensland, Tasmania and regional New South Wales. Elsewhere this is a responsibility of the State or of regional utilities. Water supply assets are generally cost recovered and in a sound condition. The written down value of water and waste-water assets in Queensland and New South Wales suggests these assets are broadly sustainable. Local governments are responsible for management of solid waste in every State.

Some key challenges for local government in managing this infrastructure are as follows:

- The need for communities to have access to a high quality reticulated water supply. According to the Institution of Engineers 2001 *Australian Infrastructure Report Card 2001*, (p. 50) 98 per cent of Australia's population is provided with reticulated water and the quality and reliability of supply is high. However, the House of Representatives Standing Committee on Primary Industries and Regional Services Report *Time Running Out* (2000, p. 303) cited a 1994, Human Rights and Equal Opportunities Commission inquiry that found that there were 154,000 Australians living in 1,200 communities that did not have a reticulated water supply.
- The need to improve management of waste water. According to the *Infrastructure Report Card*, (p. 45) less than 10 per cent of waste-water generated in Australia's cities and towns is being reused.
- Salinity. Salinity can impact on local government infrastructure in a number of ways. Firstly, it damages local government infrastructure such as buildings, roads, underground pipes and cables, gardens and sports fields and through failure of septic tanks and salination of local water supplies. Secondly, it diminishes local government's rate base through reductions in property values. Thirdly, local governments in affected areas incur additional expense by needing to contribute to catchment/regional plans to minimise the effects of salinity. The President of ALGA states in *Local Government Focus* (8 August 2001) that 20,000 kilometres of roads are at risk from salinity.
- Boundary issues. Local government might be more effective in addressing environmental issues such as catchment management and salinity if it acted regionally or if its boundaries were drawn on a catchment management basis.

For a more detailed discussion of local government's responsibilities in managing environmental assets see Chapter 5 of the 2000-01 *Local Government National Report*.

Appendix 2 - Local Government Financial Assistance Grants

The Commonwealth has been providing untied financial assistance to local government since 1974-75. Until the Territories achieved self-government, these grants did not cover the ACT or the Northern Territory. Grants for local government bodies in the Northern Territory began in 1979-80 and a grant to the ACT for municipal purposes began in 1988-89. Local roads grants were added to the financial assistance grants in 1991-92.

In 2002–03, it is estimated that the Federal Government will provide \$1.449 billion nationally – equivalent to about \$74 per capita – in financial assistance to local government.

These financial assistance grants are paid as tied grants through the States and have two components – general purpose grants and identified local road grants.

The objective of general purpose assistance from the Federal Government to local government is to strengthen local government to enable it to provide a wider range of services and to promote equity between councils and certainty of funding. These grants are untied in the hands of the receiving council. This means that councils are able to spend the grant according to the priorities of their communities.

The general purpose grants commenced in 1974–75 with allocations in the 1974 and 1975 Budgets distributed according to Commonwealth Grants Commission recommendations. This was followed, over the next two decades, by development in legislative arrangements for providing financial assistance to local government. In mid-1984 the Federal Government commissioned an Inquiry into local government (the Self Inquiry) which reported in October 1985. The Self Inquiry led to the *Local Government (Financial Assistance) Act 1986*. From July 1991, as a result of a decision at the 1990 Special Premiers' Conference, local roads grants to local government were provided under the 1986 Act (as amended). These grants are intended to help councils with the cost of maintaining their local roads but, as they are also untied, councils are not required to spend them on local roads.

The 1986 Act was reviewed in 1994 and the *Local Government (Financial Assistance) Act 1995*, under which grants are currently provided, came into effect from July 1995.

In 2000–01, the Commonwealth Grants Commission (CGC) undertook a review of the operation of the 1995 Act. Information on the findings of the Review is provided in TOR 6 and Appendix 7.

A more detailed history of Commonwealth untied financial assistance to local government is found in Chapter 6 of the CGC Review Working Papers.

A 2.1 Objects of the Act

Section 3 of the Act explains the objects of the Parliament in enacting the *Local Government (Financial Assistance) Act 1995*:

(2) The Parliament wishes to provide financial assistance to the States for the purposes of improving:

- The financial capacity of local governing bodies;
- The capacity of local governing bodies to provide their residents with an equitable level of services;
- The certainty of funding for local governing bodies;
- The efficiency and effectiveness of local governing bodies; and
- The provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.

A 2.1.1 Overview of Current Arrangements

In determining the distribution of grants to councils, the current arrangements are:

- At the beginning of each financial year, the Federal Government determines the quantum of general purpose and local roads grants estimated to be available for local government nationally. This is equal to the quantum of the grants received nationally in the previous financial year adjusted by an estimated escalation factor.
- The estimated quantum of general purpose and local roads grants for each State is then calculated according to requirements of the *Local Government (Financial Assistance) Act 1995* and these amounts are advised to States.
- Local government grants commissions in each State determine the allocation of general purpose and local roads grants among local governing bodies in their State.
- The Local Government Grants Commission recommendations are then sent, by the State Minister, to the Federal Minister for approval.
- Once these grants have been approved by the Federal Minister, quarterly payments are made by the Federal Government to the States and, without undue delay, these are passed on by the States to local governing bodies as untied grants.
- Toward the end of the financial year, the escalation factor is revised and the final quantum of the grants for the financial year is recalculated.
- An adjustment to the allocations to local governing bodies is made and their payments in the following year adjusted.

A 2.1.2 Determining the Quantum of the Grant

Section 8 of the Act specifies the formula to be applied by the Federal Treasurer each year to determine the increase in the level of local government financial assistance grants. Up to and including 1999–2000, the annual increase in local government

grants was based on the increase in financial assistance grants and special revenue assistance to the States.

From 1994–95 to 30 June 2000, the grants were increased annually in line with population and consumer price index movements (N.B. in 1997–98, local government grants were increased for inflation, but not population growth).

Following the introduction of the new tax system in July 2000, increases in financial assistance grants to the states are no longer related to the consumer price index and population. This link was abolished from 1 July 2000 under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations*. The States now receive the goods and services tax (GST) revenue.

In June 2000, the *Local Government (Financial Assistance) Act 1995* was amended to remove the nexus between movements in the local government financial assistance grants and States' financial assistance grants. The escalation factor for local government financial assistance is now on a real per capita basis similar to that previously operating for the State grants.

The amendments provided the Treasurer with discretion to increase or decrease the escalation factor in special circumstances. In applying his or her discretion, the Treasurer is required to have regard to the objects of the Act and any other matters he or she thinks relevant. The same escalation factor is applied to both the general purpose and local roads components of the grant.

A 2.1.3 Determining Actual State Entitlements and Estimated Entitlements

For each State and for both components of the grants, actual entitlements for the previous year and estimated entitlements for the forward year are calculated using the respective final factor and estimated factor, which are determined in accordance with the Act.

A 2.1.4 Calculation of Grants

Each year, the quantum of the grant to local government is determined at the start of the financial year, using a formula based on estimates of the consumer price index and population increases for the year. Councils are usually advised in August of the grant to be paid that financial year.

At the end of each year the estimated grant for local government is adjusted to an 'actual' entitlement, calculated using the actual consumer price index and population figures. Inevitably there is a difference between the estimated and actual grant entitlements. This difference is added to or subtracted from the grant paid to the State in the following year. Therefore for each year there is an estimated grant entitlement, an actual grant entitlement and an actual grant paid.

A 2.1.5 Interstate Distribution

Table A 2.1 shows the allocation of funds amongst the States for 2002–03. The Act specifies that the national allocation of the general purpose component of the grant is to be divided amongst the States on a per capita basis. This uses the Australian Bureau of Statistics' estimate of each State's population and the estimated population of all States as at 31 December of the previous year.

In contrast, the State shares of the local roads component of the grant are fixed. The distribution is determined on the basis of shares inherited from the former, tied grant arrangements. Therefore, each State's share of the local roads component is obtained by multiplying the previous year's funding by the escalation factor determined by the Treasurer.

Table A 2.1: General Purpose and Local Roads Grants, Allocation amongst States, 2002–03

State	General Purpose Grant			Local Roads Grant			Total Grant		
	\$m	% of total	\$ per capita	\$m	% of total	\$ per capita	\$m	% of total	\$ per capita
NSW	340.2	33.89	51.21	129.2	29.01	19.45	469.4	32.39	70.66
Vic	248.6	24.76	51.21	91.8	20.62	18.92	340.4	23.49	70.12
Qld	188.0	18.73	51.21	83.4	18.74	22.73	271.4	18.73	73.94
WA	98.3	9.79	51.21	68.1	15.29	35.49	166.4	11.48	86.70
SA	77.8	7.75	51.21	24.5	5.50	16.11	102.3	7.06	67.32
Tas	24.2	2.41	51.21	23.6	5.30	49.87	47.8	3.30	101.08
NT	10.2	1.02	51.21	10.4	2.34	52.20	20.7	1.43	103.41
ACT	16.5	1.65	51.21	14.3	3.21	44.26	30.8	2.13	95.47
Total^a	1003.7	100.00	51.21	445.4	100.00	22.72	1,449.1	100.00	73.93

^a all variations due to rounding adjustments.

Source: DOTARS.

The interstate distribution of local government financial assistance grants has been a contentious issue between States for some time. See TOR 6 for a discussion of this issue.

A 2.1.6 Principles for Determining Distribution of Grants within States

The 1995 Act requires National Principles to be formulated in consultation with State Ministers and a body or bodies representative of local government. The National Principles came into effect from 1996–97 and apply to both grant components. The National Principles applying to the general purpose component provide additional criteria to the objectives of full horizontal equalisation and the minimum grant which are established in the Act.

A 2.1.6.1 The Horizontal Equalisation Principle

The Commonwealth pursues a policy of horizontal equalisation when it distributes general purpose funding for State Governments. Horizontal equalisation would be achieved if every council in a State, by means of reasonable revenue-raising effort, were able to afford to provide a similar range and quality of services. Horizontal equalisation within States aims to bring all councils in that State up to the same fiscal level.

More formally, section 6(3) of the Act defines horizontal equalisation as being an allocation of funds that:

- a) ensures each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State; and
- b) takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue.

Horizontal equalisation distribution of grants is determined by estimating the cost each council would incur in providing a normal range and standard of services, and by also estimating the revenue each council could obtain through the normal range and standard of rates and charges. The grant is then allocated to compensate for these variations in expenditure and revenue and (ideally) bring all councils up to the same level of financial capacity.

This means councils that would incur higher costs in providing normal services, for example, in remote areas (where transport costs are higher), or areas with a higher proportion of elderly or pre-school aged people (where there will be more demand for specific services) will receive additional grant monies. Similarly, councils with a strong rate base (highly valued residential properties, high proportion of industrial and/or commercial property) will tend to receive less grant monies.

For the general purpose grant, the most important Principle is that the grants are distributed so as to contribute to achieving horizontal equalisation. Horizontal equalisation is achieved if each council in a State is able to provide the average range, level and quality of services by reasonable effort, taking account of differences in their capacities to raise revenue and in their expenditure needed to provide average services.

A 2.1.6.2 The Minimum Grant Principle

The Minimum Grant Principle ensures that each council receives at least a minimum level of general purpose assistance as required by the Act. This minimum is set at 30 per cent of a council's per capita share of general purpose grants.

Section 6(2)(b) of the Act requires the Minister to ensure that:

No local governing body in a State will be allocated an amount under section 9 (the general purpose component of the grant) in a year that is less than the amount that would be allocated to the body if 30 per cent of the amount to which the State is entitled under that section in respect of the year were allocated among local governing bodies in the State on a per capita basis.

A 2.1.6.3 The Effort Neutrality Principle

The Effort Neutrality Principle requires that a council's grant be independent of its policies. This means the grant to a particular council is not influenced by that council's actual rates charged, its actual expenditure on particular functions or the extent of its reserves or debt. This process allows a council to decide its own spending priorities and revenue-raising policies without affecting its grant entitlement.

A 2.1.6.4 The Other Grant Support Principle

The Other Grant Support Principle requires other grants provided to a council by another sphere of Government to be regarded like any other source of revenue and taken into account when assessing the overall financial capacity of each council. In the assessment of each council's financial capacity, local roads grants provided under this Act should be included as well as any other grants that relate to the provision of local government services that are within the scope of services covered by the grant allocation process.

A 2.1.6.5 The Aboriginal Peoples and Torres Strait Islanders Principle

The Aboriginal Peoples and Torres Strait Islanders Principle seeks to address the specific needs of Aboriginal and Torres Strait Islander peoples in the provision of council services. The Principle requires that the level of grants received by councils should reflect the Aboriginal and Torres Strait Islander population within council boundaries. This means that calculation of the grant for councils should reflect differences in the demand for services by Indigenous people, the cost of providing services to them and the capacity to raise revenue from them.

A 2.1.6.6 The Roads Principle

There is one National Principle applying to the Identified Road Component. It requires distribution of this component on the basis of road expenditure needs, including consideration of factors such as length, type and use of roads.

A 2.1.7 Transitional Modifications

Section 26 of the Act allows the Federal Minister to approve transitional modifications of the National Principles for individual States for specified years. Queensland, Victoria and Tasmania requested, and were granted, such modifications which allowed phased introduction of changes resulting from implementing the National Principles. Queensland has been granted transitional modifications each year since the 1996–97 grant year.

A 2.1.8 Determining the Distribution of Grants within States

Local government grants commissions, established within each State and the Northern Territory (not the Australian Capital Territory), determine individual council allocations in accordance with the National Principles. In the Australian Capital Territory, local government is integrated with the Territory government and there is no role for a Commission.

Local government grants commissions are State authorities required by the Federal Government under the *Local Government (Financial Assistance) Act 1995* as a condition of the State receiving local government financial assistance grants. The State provides the resources for the grants commission.

A 2.1.9 Local Government Grants Commissions

Section 6 of the Act specifies the criteria a body must satisfy to be eligible to be recognised as a Local Government Grants Commission for a State. These criteria are:

- The body is established by a law of the State;
- The principal function of the body is to make recommendations to the State Government about the provision of financial assistance to local governing bodies in the State; and
- The Commonwealth Minister is satisfied that the body includes at least two people who are or have been associated with local government in the State, whether as members of a local governing body or otherwise.

Sections 11 and 14 of the Act require local government grants commissions to:

- Hold public meetings in connection with the recommendations;
- Permit local governing bodies to make submissions to the Commission in relation to the recommendations; and
- Make their recommendations in accordance with the National Principles and any agreed State-specific principles.

After the local government grants commission has determined the grant distribution, the State Minister recommends the allocation to the Commonwealth Minister for approval. One of the conditions for approval is that the Commonwealth Minister is satisfied the State has adopted the recommendations of its Grants Commission.

The Commonwealth pays grants to each State Governments as a tied grant to be passed on to councils in accordance with the approved distribution. Although a tied grant to the States, the grants are untied in the hands of local government, to give councils discretion regarding local priorities.

Section 15 of the Act requires, as a condition on the payment to local government from the States, that they are paid by the State without undue delay and without conditions. Further, each State Treasurer must give the Federal Minister, as soon as practicable after 30 June each year, a statement detailing payments made to councils

during the previous financial year as well as the date the payments were made. The State Auditor-General must certify the statement.

The grants are paid to the States in equal instalments in the middle of each quarter. The first payment for a financial year is paid as soon as statutory conditions are met. One of the requirements of the Act is that the first payment can not be made before 15 August.

A 2.1.10 Bodies Eligible to Receive Financial Assistance Grants

Only local governing bodies are entitled to receive financial assistance grants. All councils constituted under State local government Acts are automatically local governing bodies. In addition, Section 4(2) of the Act provides for ‘a body declared by the Minister, on the advice of the relevant State Minister, by notice published in the Gazette, to be a local governing body for the purposes of this Act’. In total, 723 councils will receive grants in 2002–03. Included in this figure are 39 declared local governing bodies made eligible under this provision. Table A 2.2 shows the distribution of declared bodies by State.

Table A 2.2: Distribution of Local Governing Bodies by Type by State at June 2002

Type	NSW	Vic	Qld	WA	SA	Tas	NT ²	Total
Councils established by legislation ¹	173	78	157	142	68	29	37	684
Declared	2	1	0	0	6	0	30	39
Total	175	79	157	142	74	29	67	723

Notes:

1 Local governing bodies eligible under section 4(2) of the Act as they are constituted under State local government Acts.

2 includes Northern Territory Road Trust Fund

Source: DOTARS.

A 2.1.11 Local Government Grants Commissions Methods

The State Grants Commissions are required to determine the distribution of grants in accordance with the National Principles and to take into account local circumstances.

To determine the allocation of general purpose grants within a State, the respective Grants Commission assesses the amount each council would need to be able to provide a standard range and quality of services, while raising revenue from a standard range of rates and other income sources. The Commission then develops recommendations for grant distribution by allocating the available grant to councils taking account of their assessed grant need, and the minimum grant requirement. Distribution of the local roads component is determined based on assessments of councils’ road expenditure need.

These are difficult tasks, requiring considerable experience and judgement. Grants Commissions need to accurately and quantitatively assess the unique circumstances of

a large number of councils in their jurisdictions in terms of providing a variety of services and raising a number of revenues.

Grants Commissions use a variety of assessment methods to quantify a council's level of advantage or disadvantage across each area of expenditure and revenue. A detailed description of the methods used by each grants commission is contained in the Commonwealth's National Report, Appendix B. The Commissions also publish information about their methods in annual reports and occasional publications.

A 2.1.12 National Grant Allocation

The level of general purpose grants since the Commonwealth commenced general purpose assistance to local government in 1974–75 together with untied local road grants since 1991–92 is detailed in Table A 23.

Table A 2.3: National Financial Assistance Grant Allocation, 1974–75 to 2002–03 (\$)

Year	General purpose	Local roads	Total
1974–75	56,345,000	n/a	56,345,000
1975–76	79,978,000	n/a	79,978,000
1976–77	140,070,131	n/a	140,070,131
1977–78	165,327,608	n/a	165,327,608
1978–79	179,426,870	n/a	179,426,870
1979–80 ¹	222,801,191	n/a	222,801,191
1980–81	302,226,347	n/a	302,226,347
1981–82	352,544,573	n/a	352,544,573
1982–83	426,518,330	n/a	426,518,330
1983–84	461,531,180	n/a	461,531,180
1984–85	488,831,365	n/a	488,831,365
1985–86	538,532,042	n/a	538,532,042
1986–87	590,427,808	n/a	590,427,808
1987–88	636,717,377	n/a	636,717,377
1988–89	652,500,000	n/a	652,500,000
1989–90	677,739,860	n/a	677,739,860
1990–91	699,291,988	n/a	699,291,988
1991–92 ²	714,969,488	303,174,734	1,018,144,222
1992–93 ³	730,122,049	318,971,350	1,049,093,399
1993–94	737,203,496	322,065,373	1,059,268,869
1994–95	756,446,019	330,471,283	1,086,917,302
1995–96 ⁴	806,748,051	357,977,851	1,164,725,902
1996–97	833,693,434	369,934,312	1,203,627,746
1997–98	832,859,742	369,564,377	1,202,424,119
1998–99	854,180,951	379,025,226	1,233,206,177
1999–2000	880,575,142	390,737,104	1,271,312,246
2000–01	919,848,793	408,163,979	1,328,012,772
2001–02	965,841,233	428,572,178	1,394,413,411
2002-03 ⁵	1,003,702,209	445,372,208	1,449,074,417

Notes:

- 1 Grants to the Northern Territory under the Act commenced in 1979–80, the initial allocation being \$1,061,733.
- 2 Prior to 1991–92 local roads grants were provided as tied grants under a different Act.
- 3 In 1992–93 part of the local roads grant entitlement of the Tasmanian and Northern Territory Governments was reallocated to local government in the respective State.
- 4 Grants to the Australian Capital Territory under the Act commenced in 1995–96, the initial allocation being general purpose (\$13,572,165) and local roads (\$11,478,714).
- 5 For 2002–03 the national grant allocation is the estimated entitlement.

Source: DOTARS.

The grant entitlements for States from 1998–99 to 2002–03 are provided in Table A 2.4.

Table A 2.4: Grant Entitlements for all States by Type of Grant, 1998–99 to 2002–03 (\$m)

State	Type of Grant	1998–99	1999–00	2000–01	2001–02	2002–03
NSW	GP	289,122,909	297,893,674	310,670,281	327,747,092	340,161,401
	LR	109,967,111	113,365,094	118,421,178	124,342,237	129,216,452
	Total	399,090,020	411,258,768	429,091,459	452,089,328	469,377,853
Vic	GP	212,348,975	218,827,409	228,730,976	239,054,282	248,565,220
	LR	78,141,293	80,555,859	84,148,650	88,356,082	91,819,641
	Total	290,490,268	299,383,268	312,879,626	327,410,365	340,384,861
Qld	GP	157,152,792	162,692,473	170,764,707	179,769,293	187,952,916
	LR	71,015,440	73,209,818	76,474,975	80,298,724	83,446,434
	Total	228,168,232	235,902,291	247,239,682	260,068,017	271,399,350
WA	GP	83,128,999	86,223,641	90,349,594	94,473,299	98,256,102
	LR	57,953,514	59,744,277	62,408,872	65,529,316	68,098,065
	Total	141,082,513	145,967,918	152,758,466	160,002,614	166,354,167
SA	GP	68,005,311	69,591,120	72,250,229	75,398,572	77,776,866
	LR	20,830,002	21,473,649	22,431,374	23,552,943	24,476,218
	Total	88,835,313	91,064,769	94,681,603	98,951,515	102,253,084
Tas	GP	21,683,676	22,002,166	22,731,964	23,564,215	24,233,779
	LR	20,085,659	20,706,306	21,629,807	22,711,297	23,601,580
	Total	41,769,335	42,708,472	44,361,771	46,275,512	47,835,359
NT	GP	8,636,642	8,938,475	9,382,393	9,903,259	10,234,625
	LR	8,878,600	9,152,948	9,561,170	10,039,228	10,432,766
	Total	17,515,242	18,091,423	18,943,563	19,942,487	20,667,391
ACT	GP	14,101,647	14,406,184	14,968,649	15,931,221	16,521,300
	LR	12,153,607	12,529,153	13,087,954	13,742,351	14,281,052
	Total	26,255,254	26,935,337	28,056,603	29,673,572	30,802,352
National total	GP	854,180,951	880,575,142	919,848,793	965,841,233	1,003,702,209
	LR	379,025,226	390,737,104	408,163,979	428,572,178	445,372,208
Total		1,233,206,177	1,271,312,246	1,328,012,773	1,394,413,411	1,449,074,417

Notes: all years are actual entitlement except 2002–03 which is an estimated entitlement. All variations are due to rounding adjustments.

GP = General Purpose

LR = Local Roads

Source: DOTARS.

Appendix 7 outlines the findings of the Commonwealth Grants Commission's review of the operations of the *Local Government (Financial Assistance) Act 1995*, and TOR 6 provides a discussion of key issues in relation to the grants.

A 2.2 An International Comparative Study of Local Government Grant Distribution Systems

As part of a review of the system used in England for distributing grants from the central government to local government, Pricewaterhouse Coopers (2000) undertook a study in 1999 of the systems used in 19 OECD countries.

In relation to the grants distribution system used in Australia, the report says that key areas of interest are:

- The role of the independent local government grants commissions;
- The use of legislation and the National Principles to articulate the objectives of the grant distribution system;
- The role of councils in the consultation process; and
- The use of specific purpose payments from the Commonwealth to State Governments and to councils to promote national priorities.

As a result of the initial research, the grants distribution systems in eight of the 19 countries were the subject of more detailed review. Australia was one of these eight countries. Further information on the review of the grant distribution system for England is available at www.lga.gov.uk.

Source: Pricewaterhouse Coopers (2000) *Local Government Grant Distribution: An International Comparative Study* from DOTARS National Report.

Appendix 3 - Roads to Recovery Programme

The Federal Government provides road funding to local government under the *Roads to Recovery Act 2000* (the Act). The Act, passed in December 2000, will provide \$1.2 billion to all bodies in receipt of financial assistance grants between February 2001 when the first payments were made and 30 June 2005 when the Programme currently ends. Some \$850 million of this will be spent in rural and regional Australia. \$450 million has been provided to councils as at 30 June 2002.

Unlike the financial assistance grants, the *Roads to Recovery* grants are paid by the Commonwealth directly to local government. Individual councils determine which projects they will fund with the money. The allocations to councils are specified in the Act and fixed for the life of the Programme. Local councils must maintain their own roads spending at least at the level of the three years 1998-99 to 2000-01 to receive *Roads to Recovery* funding.

Payments are normally made quarterly with the amounts calculated by a formula designed to match the actual cash flow needs of the council. Accountability is provided via an annual report, which includes an audited financial statement, which each council must provide if it is to continue to receive funds.

After 18 months of operation of the programme, over 7,360 projects worth more than \$740 million had been lodged for funding. Some 46 per cent of these projects by value are for the reconstruction, rehabilitation and widening of existing roads while another 30 per cent are for re-gravelling, sealing and resealing work and 12 per cent will go towards bridge and drainage work. In terms of the outcomes achieved, 30 per cent of the funding provided went to achieve better asset management, 23 per cent toward better road safety and 10 per cent toward improved heavy vehicle access.

The expenditure profile for the *Roads to Recovery* Programme is:

2000-01	2001-02	2002-03	2003-04	2004-05
\$150m	\$300m	\$200m	\$300m	\$250m

The breakdown of allocations by State, between greater metropolitan and rural/regional is detailed in Table A 3.3.

Table A 3.3: Roads to Recovery Funding (\$m)

State/ Territory	Greater Metropolitan Distribution* (\$m)	Rural/Regional Distribution (\$m)	Additional Amounts for Unincorporated Areas (\$m)	Total (\$m)
NSW	85.5	254.5	3.8	343.8
Victoria	87.7	162.3	0.2	250.2
Queensland	71.8	178.2		250.0
Western Australia	39.0	141.0		180.0
South Australia	40.6	59.4	4.0	104.0
Tasmania	1.7	38.3		40.0
Northern Territory	2.8	17.2		20.0
ACT	20.0	0		20.0
TOTAL	349.1	850.9	8.0	1,208.0

*The Greater Metropolitan area includes some urban fringe local government areas that have extensive rural road networks.

Source: DOTARS.

Appendix 4 - Infrastructure Studies

A 4.1 Victorian Local Government Infrastructure Studies, 2000 and 2002

In January 2000, Victoria's Government released a report on its local government infrastructure undertaken in 1998, called *Facing the Renewal Challenge* (AMQ International, 1998). The report valued Victoria's local roads, bridges, footpaths, drains, parks, recreational facilities and public buildings at \$23.3 billion in current replacement cost. It put long-term consumption of these assets at \$704 million per year and renewal and maintenance at \$471 million per year for the years 1997-2002, leaving an annual infrastructure deficit of \$233 million per year (p. 61). The report states, (p. 10) that of the total amount of asset renewal required in the period 1997–2002, roads account for 60 per cent, implying a local road maintenance and renewal deficit of about \$139.8 million per annum.

Of these assets, 64 per cent were in transport (roads, bridges and footpaths). It estimates the replacement value for local roads in Victoria at \$12,806 million plus \$607 million for bridges.

The report noted that councils were unable to distinguish between capital spending designed to renew existing services, and that designed to improve existing services or extend services to a greater number of ratepayers. It notes that this distinction is fundamental to informed asset management. A reference group has now been established comprising representatives from the local government peak bodies, VicRoads, the Department of Treasury and Finance, the Office of the Auditor-General and the Department of Infrastructure to improve asset management culture throughout local government in Victoria.

Victoria's Auditor General issued a report in June 2002 called *Management of Roads by Local Government* that updated the value of Victoria's local roads to \$14.4 billion and made some critical observations about council management of the road system.

A 4.2 South Australian Local Government Infrastructure Study, 2001

The Local Government Metropolitan Chief Executive Officers' Association commissioned Dr Penny Burns and others to conduct an infrastructure study in South Australia. The report, *A Wealth of Opportunities*, foreshadows a local government infrastructure funding shortfall in South Australia over the next 20 to 30 years.

The study found that South Australian councils have \$8 billion in assets and \$200 million in net debt. The assets are primarily in roads and footpaths (\$4.8 billion), buildings (\$1.2 billion), storm drains (\$1.1 billion) and parks (\$75 million) valued at their current replacement cost. The *average* annual cost of renewing these assets is about 2 per cent of their value or \$160 million per year.

The key finding is that South Australian councils are under-funding infrastructure maintenance by \$105 million per year. Councils currently invest \$55 million a year on asset renewal (7 per cent of revenue), but they need to spend \$160 million a year now (19 per cent of council revenue) rising to \$240 million in 25 years to maintain existing infrastructure. The situation is more acute for rural councils: they need to quadruple their renewal spending now. Their average annual asset consumption is about \$64 million per year, but they are spending less than \$20 million per year on asset renewal.

The contributing organisations indicated the infrastructure deficit has arisen because of:

- Community demand spurring new asset spending over asset maintenance;
- Federal/State/developer ‘gifting’ of assets without ongoing maintenance funds;
- Asset growth in the 1950s and 60s which now needs replacement or renewal;
- Inadequate funding of maintenance; and
- Community pressure to keep rates low.

The study says that more funding, by itself, will not solve the asset management problem and could well exacerbate it. It suggests:

- Improving management and maintenance practices;
- Educating the community about the lifetime costs of infrastructure decisions;
- Redirecting funds to renewal of assets and/or increasing council rates;
- Borrowing to spread costs over the life of infrastructure;
- Working with Federal/State governments on infrastructure issues;
- Asset management training for staff and elected members;
- Service provision with the private sector, other councils and community bodies;
- and
- Selling, demolishing or not renewing low priority assets.

A 4.3 Tasmanian Auditor General Report, 1998

In the Special Report No.26, *Capitalisation and Reporting of Road Assets in Tasmania*, (Tasmanian Audit Office, 1998) the State Auditor-General made an assessment of council asset reporting practices and recommended improved data collection and reporting. The report put the replacement value of Tasmanian local roads at more than \$2 billion and its bridges at a further \$85 million.

Appendix 5 - Performance Indicator State Summary

The material below is reproduced from the Local Government National Report 2000-01 (Appendix G, pp. 233 – 238). The information was provided by the States and the Northern Territory and comprises their updates on progress towards developing performance indicators for local government:

A 5.1 New South Wales

New South Wales produced its 1999–2000 Comparative Performance Information publication in 2000–01. For a number of years the NSW Department of Local Government has been collecting information from councils in addition to the material needed for the Comparative Performance publication. The other data collections have been used to calculate financial assistance grants and to analyse councils' financial health. The data for the comparative performance publication was emailed to councils for confirmation.

Ten new indicators which focus on accountability to the local community have been included in the 1999–2000 publication. The Department has expanded rate income information. The average rate per assessment series now includes data on farmland and business rates. An average rate (total ordinary rates) per capita has also been included. Sources of total expenditure have been included to compliment the 'sources of total revenue' that has been reported on since 1993. Both sets are also presented as per capita figures. A capital expenditure ratio has also been developed to determine councils' ability to match capital assets to the consumption (depreciation) of assets.

Due to a number of councils failing to meet statutory reporting requirements, the Minister for Local Government has requested details of councils' ability to report in a timely manner. Consequently, the Department has included details of councils' lodgement of their Annual, Financial, and State of the Environment reports in the Comparative Performance Information publication.

The 2000–01 publication provides time series data for each indicator. New South Wales will continue to review and develop appropriate performance measures.

A 5.2 Victoria

Victoria is improving the efficiency and effectiveness of local government in delivering services by developing a performance culture, implementing best value and improving asset management practices. Victoria is continuing to develop a performance culture by encouraging councils to use and publish indicators in public documents such as the annual report, thus driving the accountability for performance to the local community and constituents.

Ten Victorian local government indicators were developed in consultation with the sector to replace the 29 annual plan indicators. Each council will publish details, in the report of operations section of their annual reports for 2000–01, on seven of these

indicators. The remaining three Victorian local government indicators are still being developed. Review and refinement of the 47 comparative indicators is progressing.

The constituent satisfaction survey was completed for the fourth consecutive year with 76 councils participating on a voluntary basis in a survey that was essentially the same as for the three previous years. The survey showed that by 2001 across Victoria the percentage of respondents rating councils as 'excellent' and 'good' had increased 10 per cent over the percentage in 1998. Since 2000, community satisfaction with overall performance of councils across Victoria has increased marginally from 47 per cent of respondents rating performance as 'excellent' and 'good' to 48 per cent. Services that most impacted on satisfaction were town planning policy and approvals and economic development. Councils have generally widely publicised their performance results.

A 5.3 Queensland

The principal aim of the Queensland Department of Local Government and Planning's performance management programme is to produce an annual publication of comparative performance information. This is to help local governments evaluate their performance through comparisons with each other, as well as help them establish benchmarking and performance measurement systems.

Under this programme, the Department released its second comprehensive comparative report in September 2000, titled *1999-00 Queensland Local Government Comparative Information*. This was followed by the release of the 1999-2000 edition in June 2001. This edition includes year-on-year data comparisons (from 1997-98) to provide a more comprehensive picture of how local government performance has improved over time.

The comparative report provides a suite of efficiency, effectiveness and quality of service indicators for key local government functions including financial operations, road maintenance, water, sewerage, waste management, library services and parks and gardens as well as comparative rating and financial information. In addition, contextual information, such as population, population growth, population density, climate, terrain and soil types is provided for each local government to provide a context for the performance information collected and to help compare councils across Queensland.

The published performance indicators are reviewed annually to ensure their appropriateness and usefulness for local government. This ongoing review has resulted in some minor changes being made to a small number of indicators and their associated data definitions, in both the 1998-99 and 1999-00 Reports.

To further help councils understand the fundamentals of comparative performance measurement, the Department facilitated several performance management training seminars and benchmarking workshops, during 2000-01, with a number of local governments who requested the service.

With the system for publishing the comparative report now well established and accepted by Queensland local governments, the Department aims to expand its

performance management programme in 2001–02 to include initiatives which focus on promotion of best practice initiatives and fostering of a continuous improvement culture within councils.

Such initiatives may include development of case studies that demonstrate current best practice in local government performance management and benchmarking and establishment of networks to encourage exchange of information and best practice ideas.

A 5.4 Western Australia

Since 1996, the Western Australian Local Government Act has required local governments to identify principal activities, their objectives and the performance indicators to be used to measure the achievement of those objectives.

During 1999–2000 a Commonwealth grant was obtained from the Local Government Development Programme, to help determine service delivery objectives for local government in Western Australia and measure the effectiveness and efficiency with which those objectives are achieved. The initial objective proved impossible due to the lack of identifiable, common objectives and operational environments. Those indicators that had been developed by local governments tended toward efficiency rather than effectiveness, with infinite variety and rarely with any identifiable relationship to major strategic objectives. Differences in operational environments also detracted from the comparability of such indicators.

It was clear that local governments were reluctant to voluntarily cooperate in a performance measurement process that was not closely linked to strategic planning and performance management. It had to be of direct benefit to councillors and senior managers and assist them to better meet community needs and expectations.

The project's research of world's best practice indicated that the nexus between the functional objectives and the performance achievements was essential if the indicators were to be true measures of performance effectiveness rather than merely the measurement of inputs and outputs. Thus, it became apparent that the primary focus was a necessity to help local governments identify objectives that were capable of measurement for both short- and long-term activities or projects. Once such principles were in general practice, secondary or subsequent phases could focus upon identifying the types of comparable objectives and indicators that were being developed in response.

The part of the project that focused upon determination and measurement of objectives was published in the form of the *Performance Measurement Guidelines for Western Australian Local Governments* in February 2001. All Western Australian local governments and Indian Ocean Territories received two copies each.

The Western Australian Department of Local Government is working on developing the comparative indicators project aiming initially at improving the quality of data being received for processing. The comparative data for the six-year period from 1994–95 to 1999–2000 will be published in time series format during 2001–02.

The Western Australian Municipal Association is committed to continuous improvement of processes and services within local government. It has contributed to development of key performance indicators through its Best Practice Training Programme on Comparative Indexing for Performance Measurement. As part of the training programme, key performance indicators have been established for road maintenance, waste management and library services.

A 5.5 South Australia

In South Australia, work on development of performance measures continued to be led by the Local Government Association of South Australia (LGASA) through its Comparative Performance Measurement project. It was agreed, at the outset of the project, that leadership by local government in this area is the most likely strategy to achieve ownership and commitment of the process and its outcomes by councils. The Office of Local Government is represented on the project's steering committee. Early work on the project confirmed that, generally speaking, local government in this State is supportive of a sector-wide comparative performance measurement system.

The four key outcomes of the project are:

- Development of performance measures that can be used for comparative purposes;
- Collection of performance information on a uniform basis;
- A measurement system that will enable councils to compare their performance with others; and
- Implementation of benchmarking between councils.

A partnership approach was adopted whereby central leadership and support is being provided through the project, whilst participating councils make a commitment in terms of both direct effort and resources. A number of councils volunteered to be pilot sites for development of corporate-level comparative indicators in the areas of governance, financial and asset management, community satisfaction and quality of life, which are considered to be the core responsibilities of local government in this State.

Data and other information needed for the comparative measures will be collected by the LGASA from a range of sources including the Local Government Grants Commission, the Australian Bureau of Statistics, councils and a community survey in each council area. The community survey is being designed to provide vital contextual information within which performance measures can be interpreted.

A 5.6 Tasmania

The aim of the Tasmanian Measuring Council Performance Project is to implement a comprehensive framework of key performance indicators (KPIs) for Tasmanian local government.

The KPIs will provide an industry-wide framework for measuring and comparing the performance of councils. The KPI system will:

- Enhance performance measurement by councils;
- Enable benchmarking and identification of best practice;
- Improve accountability to the community; and
- Establish performance trends over time.

The framework will provide councils, individually and collectively, with:

- Practical tools to measure and compare results against agreed performance outcomes and best practice standards;
- Targets and strategies for councils to continuously innovate and improve the performance of their functions, including efficient and effective service provision and operations; and
- Synergies to expand councils' capacities to produce better economic, social and environmental outcomes for residents and the community.

The Commonwealth Government provided a grant of \$55,000 under the Local Government Incentive Programme to help implement the performance measurement system. A project steering committee (the KPI Committee) comprising State and local government officers and the Chairperson of the Local Government Board was established to oversee introduction of the performance measurement system for Tasmanian councils.

The KPI Committee refined the performance indicators developed by the KPI Steering Committee in 1999. Council performance will be measured by 50 KPIs in the 1999–2000 report. All 29 Tasmanian councils provided their data on a voluntary basis. The project has been, and will continue to be, a joint effort of both State and local government. There is strong support for the measurement system from local government.

The State Government, through its initiative funding, has allocated sufficient resources to ensure successful implementation and ongoing operation of the KPI framework. The data collection form developed for the project seeks to include not only the data for the KPI project but also existing data from the Australian Bureau of Statistics, the State Grants Commission and the Department of Treasury and Finance. Customer satisfaction with council services is an important indicator. To satisfy this need the Committee is developing a community opinion survey that can be used by all councils and adapted for their particular requirements. The first report, *Measuring Council Performance In Tasmania 1999–2000*, will be released on 1 October 2001. The report for 2000–01 is due for release by 31 December 2001.

A 5.7 Northern Territory

The aim of the Northern Territory performance indicators programme is to introduce performance management tools to all councils in the Territory in such a way as to ensure that they become an integrated and valuable part of community management practices. In support of this aim, the Department of Local Government has linked the development and implementation of performance indicators for local governing bodies to the introduction of its best practice programme.

While reporting of performance information is well within the capacity of the municipal and larger councils, it is recognised that the capacity to provide this information is more difficult for the smaller and more remote councils. Consequently, the performance indicators programme consists of two streams.

The municipal and larger councils, which comprise the first stream, collected a full set of quantitative performance information on the three identified core services – roads, waste management and community management. The second stream, consisting of the smaller and more remote councils, is less advanced.

During 1999–2000, 42 councils in the Northern Territory were invited to participate in the local government performance programme and returned comparative data. This year all councils were invited to participate. However, 30 councils failed to return their surveys. Of the 30 councils, most have identified a number of reasons for not providing the required data.

The third annual report is currently being prepared for publication. Performance indicators highlight differences between councils for specific activities but do not explain why these differences may have occurred. For this reason, contextual and descriptive information for each participating council was collected and includes explanations of the circumstances and results provided by the councils themselves.

The report will not provide benchmarks against which to assess ‘satisfactory’ performance. Instead, contextual information is being provided that will help councils identify similar councils against which their performance may be assessed.

A 5.8 Australian Capital Territory

The Australian Capital Territory reports the following measures taken in the Territory in 2000–01 to improve the efficiency and effectiveness in delivering local government-type services to the Territory community. This includes progress in developing comparable performance measures.

A 5.8.1 ACT Waste Management

Measures undertaken by ACT NOWaste include:

- Implementation of an improved reporting system for missed waste and recyclables collection services; and
- Completion of a costing study which identified the full cost of waste disposal in the Territory.

A 5.8.2 Canberra Urban Parks and Places

In 2000–01, Canberra Urban Parks and Places, as the purchaser of park and public place maintenance services, continued to focus on improving the efficiency and effectiveness of delivery of services by:

- Undertaking the annual customer satisfaction survey from which service improvement programmes are designed;
- Initiating a benchmarking project with a number of comparable municipal authorities in New South Wales, Victoria, and Queensland – initial results are expected in September 2001; and
- Continuing reviews of contract management procedures.

A 5.8.3 ACT Roads

The Roads ACT unit within the Department of Urban Services has been undertaking benchmarking analysis since 1999. It comprises two components: Performance Benchmarking and Process Benchmarking.

Performance benchmarking undertaken in 1999 compared the cost efficiency of the management functions of various asset categories (local roads, arterial roads, bridges, traffic lights, signs, line marking, community paths, streetlights and stormwater assets) by establishing over 50 performance indicators. The benchmarking partners included two State road authorities and two Local Government Authorities that are of comparable Australian Classification of Local Government category.

Additional analysis was also undertaken on the more significant cost items, such as arterial and local road maintenance. Unit rates for arterial roads were compared with five regions of a comparable State road agency. Similarly, unit rates for local road maintenance were compared with 23 Local Government Authorities.

In 2000, the performance indicators were aggregated to concentrate on fewer indicators in order to illustrate the cost efficiencies of asset creation and asset maintenance activities. This project included one State Government partner and two comparable Local Government Authorities. The results confirmed the previous findings with a recommendation of undertaking further detailed analysis on asset maintenance funding levels.

Process benchmarking analysis was undertaken with the same partners in order to identify continuous improvement opportunities for specific areas. The key areas considered for the analysis were Capital Works Procurement and Contract Management.

Appendix 6 - Australian Classification of Local Governments

The Australian Classification of Local Governments (ACLG) was first published in September 1994 and has proved a useful way to categorise local governments across Australia. DOTARS uses the ACLG to compare grant outcomes for similarly classified councils.

The classification system was originally developed under the auspices of the Local Government Ministers' Conference with support funding from the Local Government Development Programme. Representatives from the three spheres of government participated in the programme. Under current arrangements, the Local Government Grants Commission in each State and the Northern Territory consults with the State Local Government Department and Local Government Association and advises DOTARS of any changes to classifications in their jurisdiction.

The classification system involves three steps. Each step allocates a prefix (letter/s of the alphabet) for each step to develop a three-letter identifier for each class of local government. Refer to Table A 6.1 for information on the structure of the classification system.

Developers of the system recognised that, with so many different types of local government in Australia, and with changing population distribution patterns, there will be occasions where a council's profile does not fully match the characteristics of the class into which it has been placed. When this occurs, a local government may be reallocated to a classification that more accurately reflects its circumstances.

Table A 6.1: Structure of the Classification System

Step 1	Step 2	Step 3	Identifiers	Category
URBAN (U)	Capital City (CC)			UCC
Population more than 20 000	Metropolitan Developed (D) Part of an urban centre of more than 1 000 000 or population density more than 600/sq km	Small (S) Medium (M) Large (L) Very Large (V)	up to 30 000 30 001–70 000 70 001–120 000 more than 120 000	UDS UDM UDL UDV
OR				
Population density more than 30 persons per sq km	Regional Towns/City (R) Part of an urban centre with population less than 1 000 000 and predominantly urban in nature	Small (S) Medium (M) Large (L) Very Large (V)	up to 30 000 30 001–70 000 70 001–120 000 more than 120 000	URS URM URL URV
OR				
90 per cent or more of LGA population is urban	Fringe (F) A developing LGA on the margin of a developed or regional urban centre	Small (S) Medium (M) Large (L) Very Large (V)	up to 30 000 30 001–70 000 70 001–120 000 more than 120 000	UFS UFM UFL UFV
RURAL (R)	Significant Growth (SG) Average annual population growth more than 3 per cent, population more than 5 000 and not remote	Not applicable		RSG
An LGA with population less than 20 000				
AND				
Population density less than 30 persons per sq km	Agricultural (A)	Small (S) Medium (M) Large (L) Very Large (V)	up to 2 000 2 001–5 000 5 001–10 000 10 001–20 000	RAS RAM RAL RAV
AND				
Less than 90 per cent of LGA population is urban	Remote (T)	Extra Small (X) Small (S) Medium (M) Large (L)	up to 400 401–1 000 1 001–3 000 3 001–20 000	RTX RTS RTM RTL

Appendix 7 - Main Findings from the CGC Review

The findings from the CGC Review are set out below in full from the Commission's final report.

Effectiveness of the Current Arrangements, Including the National Principles

The Act aims to provide financial assistance for local government to meet three underlying intentions:

- To provide all Local Government Bodies (LGBs) with at least a minimum level of assistance;
- To provide funding to contribute to the costs faced by LGBs in maintaining their local roads; and
- To provide relatively greater financial assistance to those LGBs which are relatively more disadvantaged compared with other LGBs because they face greater costs in providing services or because their ability to raise revenue is more limited.

In broad terms, the current arrangements have led to a distribution of funds in line with these intentions.

The Act sets out five purposes. Six National Principles have been developed to guide Local Government Grants Commissions (LGGCs) in allocating the assistance to achieve those purposes. The purposes, our interpretation of them and the associated National Principles are:

- Financial Capacity, which is about ensuring that every LGB receives a share of the financial assistance provided by the Act. It is supported by the Minimum Grant and the Identified Road Component Principles;
- Certainty of Funding, which aims to ensure certainty of funds to the local government sector;
- Equitable Level of Services, which aims to ensure that relatively greater funds are provided to LGBs which, because of their greater costs of providing services or because of their more limited ability to raise revenue, are more relatively disadvantaged than other LGBs. The Horizontal Equalisation, Effort Neutrality, Other Grant Support, Aboriginal Peoples and Torres Strait Islanders and Minimum Grant Principles all bear on this purpose;
- Efficiency and Effectiveness, which aims to improve the efficiency and effectiveness of LGBs; and
- Aboriginal Peoples and Torres Strait Islanders, which relates to improving the provision of services by LGBs to Indigenous people and has an associated Aboriginal Peoples and Torres Strait Islanders Principle.

The Financial Capacity Purpose is being achieved. The Minimum Grant Principle, which is well understood and correctly applied by LGGCs, ensures that each LGB receives a minimum of 30 per cent of their population share of the General Purpose pool. All LGBs with roads responsibilities also receive a share of assistance from the Local Roads pool, in accordance with the Identified Road Component Principle. The provision of at least a minimum level of assistance to all LGBs reflects one of the underlying intentions of the Commonwealth. This intention should continue to be implemented, but expressed in the form of a Per Capita grant to ensure that every LGB receives a share of assistance. The current rate of this assistance (30 per cent) should be retained.

The Certainty of Funding Purpose is also being achieved. The Act includes an escalation process that provides for growth in the level of funds to the local government sector for the duration of the Act.

The Equitable Level of Services Purpose is described in terms of horizontal equalisation, as far as practicable. The definition of horizontal equalisation in the Act, the language of the Act, and the limited amount of funding indicate the purpose is about providing additional assistance to disadvantaged LGBs. As such, it is broadly being achieved. However, the language of the Act and of the associated Horizontal Equalisation National Principle should be revised. In particular, the term horizontal equalisation should be replaced with 'relative need based on equalisation principles' because this more clearly reflects the Commonwealth's intentions and what is being, and can be, achieved. It would also avoid using the language of horizontal equalisation in a different way from its use in the allocation of Commonwealth general revenue assistance to the States.

The Minimum Grant Principle conflicts with the Horizontal Equalisation Principle because minimum grants and equalisation grants are funded from the same pool. As the minimum grants are not distributed on an equalisation basis, they reduce the assistance available to meet the Commonwealth's equity objective.

Implementation of the Horizontal Equalisation National Principle requires LGGCs to make comprehensive assessments covering all areas of local government expenditure and revenue, all influences that might affect the expenditure required and the revenue raised, and to assess both relative advantages and relative disadvantages. Some changes in the methods of LGGCs are required to better implement the intent of this National Principle.

The Effort Neutrality and the Other Grant Support Principles are integral aspects of any distribution of untied grants on the basis of equalisation principles or relative need. The Other Grant Support Principle is not consistently interpreted or implemented by LGGCs, with implications for LGB grants. The Principles are appropriate for an untied grant arrangement on equalisation principles, but the language of them could be improved to make the concepts better understood.

The Efficiency and Effectiveness Purpose attempts to impose conditions on the allocation of the financial assistance. This is not an appropriate purpose

for an Act that distributes untied assistance on equalisation principles. It should be removed from the Act.

The Aboriginal Peoples and Torres Strait Islanders Purpose attempts to direct LGBs to spend part of their assistance on improving services to Indigenous people. It is inconsistent with the untied nature of the assistance being distributed and should be removed. However, the associated Aboriginal Peoples and Torres Strait Islanders Principle should be retained even though conceptually it is not required in a grants distribution process based on relative need. This Principle should be strengthened to make it explicit that relative need requires an assessment of the impact of Indigenous people on the expenditure requirements and revenue raising capacity of LGBs.

We think that the National Report needs to take on a much stronger monitoring role in this area. It should monitor and report on:

- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people; and
- The performance of LGBs in providing services to Indigenous people (performance measures should be developed for this purpose).

The Act also identifies two **goals of the Commonwealth** in providing the financial assistance. They are to:

- Increase the transparency and accountability of the allocation of funds by LGGCs; and
- Promote greater consistency in the methods used to allocate equalisation grants.

Transparency and Accountability are not defined in the Act. We think transparency is about LGBs being able to understand how their grant has been calculated and accountability is about LGGCs providing information to assist that understanding further. Improvements in these areas are required. LGGCs should provide more and clearer information in their annual reports and the National Report should provide commentary on the different approaches of the LGGCs.

The Consistency Goal described in the Act relates to consistency in the methods used by LGGCs to allocate funds. There are many differences between LGGCs in the areas of expenditure and revenue covered by their assessments, the range of influences on expenditure and revenue levels assessed and the methods of measurement. Such differences are to be expected given the differences in the circumstances of LGBs both between and within the States. LGGCs require the flexibility to adopt methods that best reflect their circumstances.

The consistency goal should focus on the consistency of LGGCs' methods with the National Principles. Changes in LGGCs' assessment methods are required to achieve consistency with the Relative Need, Other Grant Support and Aboriginal Peoples and Torres Strait Islanders Principles.

The Identified Road Component Principle is appropriate because it is consistent with the intent of the Act and provides guidance to LGGCs on how to allocate their Local Roads grants.

Improving the Arrangements

The operation of the Act would be improved if the Commonwealth's intentions in providing its assistance were clearer and more transparent, with a clearer relationship between the purposes and the funds provided. We think this could be achieved if there were:

- A Per Capita pool to provide every LGB with a share of the assistance;
- A Local Roads pool to contribute towards LGBs' costs of maintaining their local roads; and
- A Relative Need pool to improve equity by providing additional assistance to the more disadvantaged LGBs.

Every LGB would receive a fixed per capita share from the Per Capita pool. Every LGB that has a road responsibility would receive funding from the Local Roads pool. Only relatively disadvantaged LGBs would receive funding from the Relative Need pool. As part of the changes, a purpose should be drafted for the Act to outline the Commonwealth's intentions in providing the assistance from each pool.

Transitional Arrangements. The changes to the proposed three pool arrangement will not alter the total amount of assistance available or the allocation to the States. However, requiring LGGCs to amend their assessment methods to make them more consistent with the National Principles is likely to change the current distribution of grants to LGBs within States. A five year transitional period would be appropriate to enable LGGCs to modify their methods and LGBs to adjust to the changes in their grants.

The National Report should play a much stronger monitoring role. Areas that it should monitor and report on include:

- The extent to which LGGCs' assessment methods and approaches are consistent with the National Principles;
- The extent to which LGGCs are modifying their equalisation assessments to deliver greater stability in annual grants;
- The extent to which LGGCs' assessment methods recognise the needs of Indigenous people;
- Assessing the performance of LGBs in providing services to Indigenous people;
- The extent to which LGGCs explain how individual grants have been calculated and provide sufficient information to enable LGBs to calculate them if they wish; and

- The effectiveness of the proposed transitional arrangements.

Impact on Revenue Raising and the Provision of State Assistance

Since the introduction of the Commonwealth's financial assistance grants in 1974–75, local government revenue from all sources has grown on average by 10.1 per cent per annum. Revenue from local government taxes and charges was about the same proportion in 1997–98 as it was in 1974–75. The introduction of Commonwealth assistance appears to have had little impact on local government revenue raising effort at the national level.

State assistance to local government has increased absolutely in real terms over the same period. However, the rate of increase has been less than the rate of increase of other sources of local government revenue. State assistance has declined in relative importance from about 15 per cent of local government revenue in 1974–75 to 7 per cent in 1997–98.

Implications of Changes in Functions and Responsibilities

Local government functions and responsibilities have expanded over the period since 1974–75. Analysis of local government expenditure over the period 1961–62 to 1997–98 shows that the composition of services being provided by local government has changed markedly over the last 30–35 years. Local government is increasingly providing human services at the expense of traditional property-based services (particularly roads).

Some changes are the result of the changing priorities of local government, others are imposed on them by other spheres of government. The general broadening of local government functions has implications for local government finances.

Eligibility for Assistance

The Act provides the Commonwealth Minister with the capacity to declare bodies that are providing local government-type services, but are not LGBs under State legislation, to be eligible to receive financial assistance grants. 40 of the 730 LGBs eligible to receive grants under this Act are declared LGBs. These arrangements are working well and should be retained. The Act should be amended to allow:

- Either the Commonwealth or State Minister to initiate a declaration — but require both to agree to it; and
- The Ministers to revoke an existing declaration, provided both agree.

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