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# Inquiry into Local Government and Cost Shifting

Standing Committee on Economics,  
Finance and Public Administration



Submission from -

**Victorian Local Governance Association**

August 2002

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## The Victorian Local Governance Association

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The Victorian Local Governance Association (VLGA) exists to promote good governance and sustainability by supporting local governments and communities through programs of advocacy, training, information provision and support. The VLGA was founded in 1993, it presently has forty-two Victorian local governments as members and is unique in also having a chapter of community membership for individuals and community organisations of more than two hundred.

The role of the Association is to be a principal source of democratic and co-operative leadership to municipalities and associated community groups and to assist local governments to maintain peace, order and good government in the municipal districts of Victoria.

The Association expects of itself and seeks to encourage in Australian community life the qualities of integrity, justice and respect for other citizens. In particular the Association supports:

- the right of communities to manage their own affairs through democratic processes
- local governance based on the interests of the whole community
- economy, effectiveness, efficiency, ecological sustainability and equity in the use of community resources
- equal access for all citizens to community information and resources
- free, open and informed discussion prior to decision on community issues
- accountability of local governments to their electors

The VLGA has sought the views of its member local governments in developing responses to the terms of reference of the *Inquiry into Local Government and Cost Shifting*.

The VLGA does not intend in its submission to respond to all the terms of reference relating to the Inquiry, but rather make more general comments on local governments' changing roles and the financial arrangements required to meet these changes.

### Local Governments' Roles and Responsibilities.

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Local governments in Australia have large and complex roles and responsibilities. Democratically elected local governments provide expression for the needs, interests and aspirations of their communities. Local governments reflect community interests in ways markedly different from but complimentary to the roles of State and Commonwealth Governments. While local governments are characterised by being the sphere of government closest to the people they are also characterised by their environmental, financial, social, cultural and political diversity.

Local, State and Commonwealth governments manage critical social, environmental and broader economic issues all governments deal with the world of people and their varied

values, needs, perceptions, interests, aspirations and prejudices. Local, State and Commonwealth governments also have to grapple with fiscal, economic and infrastructure issues.

Australian local governments, at their 1997 National General Assembly, adopted a *Declaration on the Role of Local Government* (attachment 1). The declaration was proclaimed as a standard to which all Australian governments should aspire in their efforts to achieve a more effective democratic process and secure the environmental, social and economic well being of their constituents. The *Declaration on the Role of Local Government* provides a strong basis for understanding local government's roles in the Australian Federal system. The Declaration emphasizes local governments' representative roles and focus for community identity and civic spirit as well as the provision of appropriate services.

The Declaration stresses that local governments must be partners in our federal system, they are responsive and accountable to local communities and provide good local governance and exercise local autonomy. Furthermore local governments provide leadership and advocacy, promote active citizenship, foster local identity and support and nurture cohesive communities. Local governments directly provide services and ensure other services are provided by advocacy, representation and coordination. They also foster regional co operation.

While local governments have articulated a role in the Australian federal system, it is acknowledged that local governments exist in each State and Territory as a consequence of State and Territory legislation. In Victoria the Local Government Act (1989) broadly defines the roles and responsibilities of local governments.

The Victorian Local Government Act (1989) describes the purpose of local governments (Victorian Local Government Act 1989, section 6) as:

- (a) to provide for the peace, order and good government of the municipal district; and
- (b) to facilitate and encourage appropriate development of its municipal district in the best interests of the community; and
- (c) and to provide equitable and appropriate services and facilities for the community and to ensure that these services and facilities are managed efficiently and effectively; and
- (d) to manage, improve and develop the resources of its district efficiently and effectively

Local governments' roles are large, complex and expanding. In governing for their communities local governments have to manage considerable community expectations and the realities of State and Commonwealth decisions. Notwithstanding the terms of reference for this inquiry that only address cost shifting from state governments to local governments, the implications of many State and Commonwealth decisions do impact on the services, projects and programs provided by local governments. Decisions at State and Commonwealth levels often create new local demands for programs and services that are not recognised in funding arrangements between State, Commonwealth and local governments.

Despite its extensive and expanding roles and responsibilities and being the level of government with the greatest community interest, local government remains the only sphere of government in Australia not to be recognised constitutionally. The failure to have our Federal system acknowledge that three spheres of Government exist and work in partnership has significant implications regarding local governments ability to access appropriate funding levels and tax streams.

## Changing Roles and Financial Arrangements

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### **Impetus for Change**

The first impetus for change is from local governments and their communities that expect local government to be part of a system of governance in Australia that has three spheres. Local governments govern for their communities, the historic relationship of local governments servicing property and being primarily accountable to property owners has changed as local communities expect more than the delivery of services. Although State and Commonwealth Governments often see local governments as simply service providers, the communities that elect councils expect a partnership and expect that the sphere closest and most accessible represents and advocates their needs, interests and aspirations.

The second impetus for change was the amalgamation of Victorian local governments in 1994. Seventy eight new local governments were created from the previous two hundred and ten. These larger local governments have taken advantage of the opportunities to be more influential in their regions and to take up a broader range of concerns especially the issue of regional economic development. Amalgamations in Victoria have added to local governments expanded roles.

The third impetus for an expanding role for local governments is the local responses to State and Commonwealth Government decisions on their own programs and policies. The withdrawal of health, welfare and educational services or the impacts of industry policy on communities creates real and human problems that local communities and local governments respond to. While State and Commonwealth Governments are required to make policy and resource decisions at a macro level, it is often the programs and projects created, developed and expanded at a local level in response that add to the expansion in roles of local governments.

The fourth impetus to the expanding roles of local governments is the result of cost shifting, under-funding and compliance issues as a result of State and Commonwealth actions. Where costs are shifted local governments pick up the difference, where programs are under funded local governments fund the gap and where compliance costs are involved local governments have no choice but to pay. The impacts of these cost shifts, under-funding or compliance issues result in local governments absorbing the funding gap by spending more of their own resources or cutting other programs. Home and Community Care provides an example of local governments expanding their role to respond to critical local demand as a result of State and Commonwealth Governments under-funding this program.

Cost shifting is the transfer of responsibility to local governments without any funding. Some Victorian examples include: road funding, power line tree clearance, sewer inspections, graffiti removal on public buildings, building inspections, responsibilities delegated by the Environment Protection Authority (EPA) and statutory planning issues.

Under-funding is the insufficient funds or short term funds available for new or ongoing responsibilities. In Victoria some examples are: black spot funding, public lighting, school crossing supervision, traffic management around schools, Food Act, immunisations, libraries, maternal and child health and Home and Community Care funding.

Compliance costs are the direct result of legislative or regulatory changes resulting in new requirements for local governments without any or adequate compensation: Examples include: pre school building changes, food safety, domestic animal legislation, tobacco legislation, building inspections, immunisations, Best Value reporting and national competition policy / competitive neutrality.

### **Local Government Revenues**

Local government revenues derive from three sources;

1. rates on property, fees and charges for specific services or programs
2. untied Grants, usually in the form of Financial Assistance Grants (FAGs)
3. tied Grants, for specific projects and programs

Local government rates in Victoria were capped in 1995. The capping resulted in local governments withdrawing services and postponing some capital works and infrastructure spending. While a subsequent state government has removed the rate cap, Victorian local governments are subject to an annual statement outlining the Victorian State Government's expectations on movements in rates and charges.

The postponement of infrastructure spending has created an escalating problem for local governments in managing infrastructure demands and responding to the issues of renewal and replacement of ageing infrastructure.

Both tied and untied grants remain the ultimate decision of State and Commonwealth governments. The total pool of Financial Assistance Grants (FAGs) and distribution formulas remain at the discretion of the Commonwealth and the Grants Commission.

### **Other Funding Sources**

Apart from rates and charges (which includes parking charges, waste charges, developer levies etc), and State and Commonwealth grants, local governments have limited opportunities within current State Federal arrangements for further revenue collection.

While private sector partnerships are sometimes mooted they remain as problematic for local governments as they do for State and Commonwealth Governments.

## **The Interest of the States**

State governments' interest in local government rating is a consequence of seeing local governments as subservient to the needs and interests of state governments. While local government remains as a sphere of government in our federal system without appropriate acknowledgement in the Australian Constitution it is easy for state governments to fall into the historic trap of seeing local governments as subservient.

Even where state governments have abandoned rate capping they still insist on annual statements of the States expectations on rates. The nonsense of this process in Victoria is that the annual statement is announced in May while most local governments are concluding their budget preparations.

The interest of the States is two fold. Firstly because of current legislative arrangements and an immature political environment regarding state governments and state oppositions, governments are anxious not to receive negative political spin offs from the decisions of local governments. No Minister wishes to be part of a State Government where the decisions of local governments have a perceived political impact upon their government. Secondly the States competitive interests in keeping inflation figures down in comparison to each other is critical for the States' fiscal credibility and encourages a heavy hand on local government rates.

## **Conclusion**

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Local Governments have roles and responsibilities that have grown significantly from the historical notion of property services. The changes in roles and responsibilities is a result of the needs, interests and aspirations of local communities, local governments ability to be an equal partner in our federal system and the impacts of state and federal policy including cost shifting and under funding.

To respond to the expanded role and maintain community programs and infrastructure programs, local governments have an increased role with limited capacity to increase revenues.

Local governments' major direct sources of revenues are municipal rates, but State Government interest and interference means that local governments are limited in their own capacity to have these meet local needs. Tied and untied grants from State and Commonwealth Governments remain at their discretion.

For local governments to have adequate revenues, the easy answer is increased funding from State and Commonwealth Governments. State Governments will shortly be in receipt of a share of GST revenues that will have strong growth, local government rates are not indexed nor offer any inbuilt growth. A guaranteed share of GST revenues for local governments without complex formulas and compliance regimes requires a complete revamp of the State Commonwealth tax system.

In conclusion, local governments' expanded roles and responsibilities are largely a consequence of communities and local governments sharing a view that local governments are a legitimate partner in our Federal System. We seek a mature relationship that properly places local governments as a partner in the Australian Federal System and acknowledge the need for local governments to collect appropriate revenues to respond to community needs. The debate regarding what is the appropriate level of rates is a debate between the relevant local government and its community.

To allow local governments to become a mature partner in our federal system, constitutional recognition for local governments that provides a basis for revenue collection is required. State Governments' capacity to interfere in rate setting must be removed. Failing a commitment from the Commonwealth on appropriate constitutional recognition the VLGA recommends a full inquiry into local, state and commonwealth taxation systems that redresses the needs of local governments. The 'Great Tax Debate' and the introduction of GST have ignored the interests of local governments. This inquiry must deliver more.

## Attachments

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### **Attachment 1.**

#### **Declaration on Role of Australian Local Government**

We elected members of Australian Local Governments gathered at the 1997 National General Assembly of Local Government in Canberra on 24 November 1997

Recalling the Worldwide Declaration of Local Self-Government renewed by the International Union of Local Authorities in Toronto in June 1993;

Now proclaim the following Declaration on the Role of Local Government as a standard to which all Australian governments should aspire in their efforts to achieve a more effective democratic process and secure the environmental, social and economic well being of their constituents.

#### **Fundamental Principles**

Local Governments are elected to represent their local communities; to be a responsible and accountable sphere of democratic governance; to be a focus for community identity and civic spirit; to provide appropriate services to meet community needs in an efficient and effective manner; and to facilitate and coordinate local efforts and resources in pursuit of community goals.

To these ends, the principle of elected Local Government must be enshrined in the Australian Constitution and the Constitutions of each State and the Northern Territory.

#### **Roles and Responsibilities**

Australian Local Government:

1. must be a **Partner in the Federal System**

Local Government is a necessary participating partner in the Australian system of democratically elected, representative government, in accordance with the view expressed without dissent at the Australian Constitution Convention in Hobart, 1976.

2. will be **Responsive and Accountable to the Local Community**

Local Government is elected by the local community to respond to its aspirations and concerns, and to meet its needs within available resources. Local Government must be electorally accountable to the local community, and manage its affairs in a transparent way.

3. will provide **Good Local Governance**



Local Government seeks to provide good governance for its community by being fully informed on local issues; by considering all aspects of environmental, social and economic well being; through effective strategic and corporate planning based on extensive community consultation; and by balancing competing claims and interests openly, fairly and sympathetically. Local Government will, without fear or favour, uphold the highest standards set by legislation and public policy or formulated having regard to local community values.

4. must exercise **Local Autonomy**

As an elected sphere of government, Local Government must be free to exercise its own powers and to apply relevant Commonwealth and State/Territory laws in a manner which reflects local needs and circumstances. To this end, its revenue base should be enhanced and not be subject to arbitrary limitations by other Governments. Local Government should not be required to act as an agent for the Commonwealth or States/Northern Territory unless it chooses to do so, and contractual conditions have been mutually agreed through negotiation.

5. will provide **Leadership and Advocacy**

Local Government will lead and inform the local community on issues affecting it, and will advocate and represent community interests to other spheres of government and in wider forums. Local Government will provide a strong and united voice at State/Territory and national levels for the common concerns and aspirations of local communities.

6. will promote **Active Citizenship at the Local Level**

Local Government will encourage non-discriminatory participation of all citizens in building democratic communities which share power and ensure a more equitable allocation of community resources.

7. will foster **Local Identity and Civic Pride**

Through effective leadership, Local Government will provide a focus for local identity and civic pride, including a caring attitude to others and to the local environment, whether natural or built. It will strive to encourage community participation in civic affairs, and community contributions to local projects and programs.

8. will secure **Community Cohesion**

Local Government will promote tolerant and cohesive communities, based on respect of the values of others, irrespective of race, creed or cultural heritage.

9. will ensure **Local Service Delivery**

Local Government will provide, or ensure the provision of, programs and services required to meet local community needs. These must be affordable and delivered equitably, efficiently and effectively. Local revenues and resources

must be supplemented by external resources, including Commonwealth or State/Territory grants, when appropriate.

10. will facilitate **Community Development**

Local Government will seek to ensure the balanced physical, social and economic development of its local communities.

11. will foster **Regional Cooperation**

Local Government will cooperate at a regional scale to address issues affecting adjoining communities, and to provide a basis for effective inter-Government relations. This will include appropriate resource sharing and joint activities amongst councils.

12. will **Adapt to Change**

Local Government undertakes to keep pace with the changing circumstances of local communities and its broader operating environment. It commits to the application of benchmarking, continuous improvement and quality assurance systems in order to attain 'best practice' standards and ensure the best possible outcomes for the communities it serves.