

Initial Submission to the House of
Representatives Standing
Committee on Economics,
Finance & Public Administration

*INQUIRY INTO COST SHIFTING
ONTO AND THE
FINANCIAL POSITION
OF LOCAL GOVERNMENT*

by the

Local Government Association
of South Australia

August 2002

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1. Introduction

The Local Government Association of South Australia (LGA) welcomes the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into cost shifting onto local government by state governments and the financial position of local government.

2. Background

Local governments have matured considerably in South Australia over the past 20 years. This development has been particularly apparent in the last 10 years during which considerable reforms have occurred. These have included a wholesale structural review of the sector which has seen the number of local governments voluntarily reduced from 118 to 68. There has also been a comprehensive review of local government legislation which resulted in a complete rewrite and modernisation of the Local Government Act(s). During this period local government has continued to successfully manage its responsibilities with the introduction of wider reforms such as Competition Policy and the New Tax System and to respond to trends and community demands such as improved customer service and enhanced online services.

More significant though than the structural, legislative and wider reforms (but facilitated in part as a result of this) has been the changes in the roles of local governments in South Australia. SA councils are today doing many things that were once the responsibility of another sphere of government. They have taken on these roles in response to community demands, sometimes because they are best placed to do so but often because either the state or federal governments or their agencies have explicitly or implicitly withdrawn from or reduced their own support for these activities. An illustrative, but by no means comprehensive list of examples is attached at Appendix 1.

It should be noted that the breadth of local governments' role in Australia is narrower than in most other countries in the world – and significantly lower than that in historically strong economies such as the USA, Germany, the UK, Japan and Scandinavian countries. As described in Australia's chapter within the OECD publication 'Managing across Levels of Government' local government in Australia has "...a relatively narrow range of functions (on a world scale)." That report also highlights comparative employment by spheres of government in 15 participating countries (Table 1 on P.37) and at 12.1% of public sector employment in 1994 Australia is the lowest of all excepting New Zealand (10.3%). Comparative figures are: for the USA, 61.1%; the UK, 52.3%; Germany, 37.1%; Finland, 74.8% and Canada, 39%. Japan, it should be noted, is conducting a significant "decentralisation" program to further build local capacity as one response to its more recent economic stress (Refer for publication to: <http://www1.oecd.org/puma/malg/malg97/toc.htm>).

It is also useful to note that the Australian community continues to support and demand wider roles for local government and to rank local government highly in trust and performance in relation to other governments. Indicators of this can be found in recent survey work undertaken by the LGA (refer Appendix 2).

3. Strengthening Intergovernmental Relations

The LGA is supportive of efforts to achieve greater harmonisation in the activities of all 3 spheres of government. It has encouraged individual councils and the local government sector in SA to build relations with the Commonwealth and State and their agencies and work collaboratively to more efficiently and effectively serve communities. This has been the rationale for our Future Directions – Smarter Governments Working Together Program (refer brochure attached as Appendix 3). This comprehensive program has been developed with the full support of local governments in SA to strengthen intergovernmental relations.

It is indisputable that there are significant benefits to be realised from further improvements in local governments' relations with the other two spheres of government. We are supportive of local governments undertaking all roles and responsibilities they are most appropriately placed to fulfil in terms of both governance and service delivery. This predisposes however that local governments can secure sufficient revenue to fulfil such responsibilities.

There is increasing and considerable reluctance by councils to take on additional responsibilities. There are widely held views that the motivation of other spheres of government to transfer responsibilities to local government are not driven by the principle of subsidiarity (decisions made at a level as close as possible to those affected) or considerations of efficiency and effectiveness but by opportunities to cost shift. As a result councils are increasingly likely to resist undertaking additional responsibilities without additional funding.

Successive Commonwealth and South Australian Governments have focussed on short-term budget considerations rather than strategic long-term inter-government relations and community benefit in their dealings with local government. For example in the most recent State Budget the new Government announced a 57% cut in a local government administered Crime Prevention Program despite the former Government less than one year previously having signed 3 year funding agreements with councils (which had engaged employees based on these agreements). In responding to subsequent community concerns it then announced in the media that it 'would persuade local government' to pick up the shortfall (refer Appendix 4 attached). Another recent example is the guidelines for the Commonwealth TV Black Spots program which envisage local government taking ongoing responsibility for television re-transmission sites and for ensuring initial costs above Commonwealth contributions are met. Hence without consultation or agreement with local government pressure on councils to fund a new area has been created. This has resulted in councils unwilling/unable to take on this new responsibility being blamed for blocking improved television reception in the community notwithstanding Section 51 of the Australian Constitution's clear allocation of powers in this area to the Commonwealth (refer Guidelines on: http://www.dcita.gov.au/Article/0,,0_1-2_1-4_15424,00.html).

4. Financial Status of Local Government in South Australia

There is currently an imbalance between the roles expected of local government in South Australia and available revenue. In aggregate the South Australian local government sector (and the vast majority of individual councils) is running operating losses (about \$100m per annum or 10% of operating expenses) on an accrual basis. In simple terms councils have taken on additional responsibilities over the past two decades while at the same time there has been a corresponding decline in funding support from other spheres of government. Despite real increases in rate revenue and improvements in efficiency councils have been forced to "balance the books" (in a cash sense) by reducing the level of maintenance and renewal of existing infrastructure assets (see for example Appendix 5). As a result the overall condition and value of these assets has declined.

A recent independent study of council infrastructure ("A Wealth of Opportunities") commissioned by the sector estimated that South Australian councils are under-funding

infrastructure renewal by \$95 million per annum and this gap will increase significantly over the next 25 years unless maintenance and renewal funding dramatically increases because many assets are approaching an advanced stage of decay. The study suggests that all councils need to immediately approximately double their renewals expenditure for the next 3-5 years and increase this further thereafter. A copy of this report is available at www.sainfrastructure.com

5. Grants to Local Government in South Australia

There is no doubt councils are doing many things today that were once undertaken by other spheres of government. Exacerbating the financial impact of these additional responsibilities has been the reductions in funding from these other spheres over the past 15 years.

a) Commonwealth FAGs

Commonwealth Financial Assistance Grants (FAGs) are the largest source of revenue for SA councils apart from general rates. The Commonwealth provided local government FAGs of \$1.44 billion nationally in 2002-03 (excluding Roads to Recovery funding). SA received \$101m or 7.04% of the total pool of funds. Of the \$101m for SA, \$76.8m was provided as General Purpose Grants and \$24.3m was provided as (untied) Identified Local Road Grants. These grants represent 7.7% and 5.5% of the national pool of funds.

The value of available local government FAGs has declined in real terms and as a proportion of Commonwealth outlays steadily since the 1980's. Even though funds have been maintained in real per capita terms in recent years the value of available funds relative to local governments' expanding responsibilities (and therefore outlays) has fallen.

SA councils are concerned at the inadequate national quantum of Commonwealth Financial Assistance Grants (FAGs) for local government and its decline over time and the basis of distribution of available funds between the states and Northern Territory.

Aggregate available General Purpose Grants are inadequate to come close to being able to achieve fiscal equalisation between councils. As a result some councils and their ratepayers through no fault of their own face significantly larger burdens in funding obligations and services to their communities than others. Likewise aggregate Identified Local Road Grants are miniscule relative to the size of the local road network and the cost of its maintenance.

The interstate distribution of the General Purpose Grants is on an equal per capita basis. The Identified Local Road Grants are distributed on a basis, which cannot be explained by the Commonwealth other than it is 'historical'.

SA has campaigned for many years for a review of the way these FAGs for local governments are distributed between the states and territories.

The existing arrangements are an anomaly and clearly inequitable, eg:

- The Commonwealth distributes financial assistance grants for other than local government purposes to the states and territories on a fiscal equalisation basis.
- The Commonwealth also requires the states to distribute the monies they receive for local government purposes on a fiscal equalisation basis.

However, the distribution of local government General Purpose Grants between the states is made on an equal per capita basis which does not recognise differences between local government sectors in the states in their capacities to raise revenue and their expenditure needs. This inevitably means less money for local government in those states and territories suffering greatest disadvantage.

The basis for the distribution of Identified Local Road Grants between the states is unknown. SA receives even less than a per capita share of these funds and a lower per capita and per road length amount than any other state or territory (see Appendix 6).

It is estimated that sharing the General Purpose Grants based on population rather than need is costing South Australian councils in the order of \$20m and \$30m per annum. Distributing Identified Local Road Grants on a road length or population basis would provide an additional \$24.7m or \$9.4m per annum respectively for SA councils.

The current review of the Commonwealth Local Government (Financial Assistance) Act presented an opportunity for redress of our acknowledged concerns. However, the terms of reference for the review, despite our approaches and those of the SA Government, were specifically drafted to exclude consideration of the issue of the interstate distribution of funds.

Roads to Recovery Program

In November 2000 the Commonwealth Government announced its Roads to Recovery Program. It will see at least \$1.2 billion of additional funds provided to councils over 4 years for expenditure on local roads.

Significantly, the Commonwealth recognised the inequity in the existing ongoing Identified Local Road Grant allocations when it chose to depart from its traditional Identified Local Roads Grants formula in determining the distribution of Roads to Recovery funds between states and territories. For example SA councils will receive \$100m or 8.3% of this amount over a 4-year period. This is \$34m more than would have been received if the Identified Roads Grants formula had been applied.

Summary

SA councils recognise the political difficulties in redistributing the existing quantum of Commonwealth FAGs. It is probably therefore more practical to redress the current inequity either by a relatively significant increase to the base or through gradual incremental real increases in Commonwealth FAGs that ensures other states and territories also receive a real increase in funds but a smaller proportion of the total. We believe this was the rationale behind the higher proportion of funds local governments in SA were allocated in the Roads to Recovery Program.

We believe there is a strong case for the Commonwealth to better achieve its policy objectives and strengthen the capacity of local communities by increasing its financial

support of local government. This would present an opportunity at the same time to redress the widely recognised inequity in the basis of distribution of Commonwealth funds for local governments between the states and territories.

In addition to a significant increase in the base quantum of General Purpose FAGs we believe the amount should be annually increased thereafter not only by CPI but also by a factor that reflects increases in Gross Domestic Product. Without such an increase the resources available to councils will decline relative to community demands and needs with rising levels of economic activity. It is also critical that the Roads to Recovery Program be extended or some similar program be established after 2004 and that funding be sufficient to ensure that local governments with reasonable rating effort have the capacity to adequately maintain their vast and crucial local road network. If it can be shown to be absolutely necessary we believe that local governments and their communities would support a small increase in fuel taxes dedicated to this purpose.

b) SA Government Financial Support

Information obtained from the Commonwealth Government's publication, Local Government National Report 2000-2001 appears to suggest that, on a per-capita basis, South Australian councils receive the lowest national quantum of state government grants (refer Appendix 7). Net grants from the SA State Government to councils for 1999-2000 totalled \$16 million. The majority of this funding is for public libraries and, to a lesser degree, STEDS (septic tank effluent disposal schemes).

In accord with our Future Directions Program we have sought to date without success to interest the State Government in formally and comprehensively reviewing its financial relationship with local government. We are convinced that this could generate strategically improved outcomes even if conducted on an overall financially neutral basis. We have in recent times had a small victory in as much as the State has recognised the severe and increasing backlog of outstanding stormwater infrastructure projects that meet criteria for state funding support and has indicated a willingness to work with local government on how to fund such work (see for example Appendix 8). Three years earlier the State without consultation halved its annual allocation to this joint program and this cut has been maintained in subsequent budgets to date.

6. SA Centre for Economic Studies Report - Financing South Australian Local Government's Contribution to Community Development

Last year the LGA commissioned the SA Centre for Economic Studies to prepare a report examining the appropriateness and adequacy of SA local governments' revenue and to evaluate options to increase revenue sources. The report has recently been finalised and a copy of its Executive Summary is attached as Appendix 9. A copy of the full report can be made available upon request.

The report's findings confirm that the proportion of expenditure by South Australian councils on transport and communications (roads) is reducing relative to all other major functions (recreation & culture, public services, housing & community amenities) - refer Appendix 5.

It recognizes that financial support councils receive from other spheres of government is declining and concludes that there are good reasons to reverse this trend. It nevertheless realistically concludes that the local government sector needs to accept responsibility for determining the services and activities it undertakes for its communities and ensuring that it raises sufficient revenue to undertake its determined roles.

7. Commonwealth Grants Commission Research

The feedback to the LGA from councils and the research of the SA Centre for Economic Studies is consistent with that undertaken at a national level by the Commonwealth Grants Commission. The Commission has undertaken extensive and widely respected research into local government finances over a long period of time. It has also recognized that local governments are increasingly expected to do things once undertaken and or paid for by other spheres of government. Its draft report on the Review of the Operation of the Local Government Financial Assistance Act 1995 (refer Chapters 14 & 15, available at www.cgc.gov.au/Local_Gov_Pages/draft_report.htm) concluded that "Local Government is increasingly being drawn into new areas of service provision. It has responded by increasing rates and user charges and spending proportionally less on roads. It has been constrained in what it can do because its primary revenue source (municipal rates) is a slow growth tax".

8. Conclusion

It is essential that serious consideration be given to what are the appropriate roles of all 3 spheres of government in Australia and how best to finance them. Successive Commonwealth and state governments have put priority on short term budgetary considerations at the expense of the long-term strategic benefit of closer relations with the local government sector.

SA councils have strong grounds to conclude that the prime interest of the other spheres of government in engaging with local government is to cost shift. As a result they are increasingly reluctant to undertake new responsibilities without additional financial support from the Commonwealth or State. They recognize that despite real increases in rate revenue and improvements in efficiency the additional unfunded responsibilities they have taken on previously have been at the expense of adequate management of their infrastructure assets.

Local governments in SA are more mature and professionally capable than ever before but they are unable to fulfill their potential for their communities because revenue sources have not increased and grant funding has declined while their expenditure demands have increased. Councils are already operating at substantial net deficits and the value and condition of their infrastructure (primarily local roads - refer Appendix 10) is declining.

There are many areas where the communities could be strengthened, decisions and therefore ownership of outcomes made locally and improvements made in efficiency and effectiveness of service delivery by strategically expanding the roles and responsibilities of local governments. For this to occur both the Commonwealth and the states need to increase their financial support for local governments.

Local government in Australia has a narrower role than in most other countries around the world, and significantly narrower than the most successful economies such as the USA; Germany; the UK, Japan and Scandinavian countries. Broadly we believe that Australia has too many government functions centralised in state or federal governments, resulting in 'decision overload', particularly at the state level. The ongoing demand by communities for wider involvement of local government, their relative confidence in local government and the willingness by state and federal governments to hand over responsibilities to local government suggests Australia wants a stronger local government sector.

The Way Ahead for Australia

The focus of the terms of reference for this inquiry are primarily research focused. In looking at the issues however a key question for all spheres of government is what should be done and perhaps more importantly what are the implications if nothing is done?

While detailed predictions in an environment with so many variables is difficult, the LGA would contend that some or all of the following outcomes are likely over the next 20 to 30 years if these issues are not addressed effectively:

- Growing dependence of communities on central governments;
- Decaying infrastructure;
- Growing geographic inequity across the nation;
- Reductions in services and funding
- Weakened economic capacity (as a result of decaying infrastructure and service cuts);
- Weakened capacity of communities to impact on their own future and to cope with external impacts;
- Growing alienation and frustration due to central governments inability to respond appropriately to differing local needs;
- Reduced international competitiveness due to all of the above factors.

The information presented in this submission suggests in relation to the Inquiry's terms of reference (5) that there is very large scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities. The LGA of SA would suggest that all spheres of government need to be involved in achieving such outcomes through engagement in strategies such as those outlined in our Future Directions – Smarter Governments Working Together program.

The sort of approach we envisage is far from a simplistic hand-over of distinct functions from central to local government. Such an approach, whether on an ad hoc basis as tends to occur now, or in amore substantial reform program, would be unlikely to produce the best outcomes. We have an opportunity to plan a strategic approach in which resourcing, accountability, and decision-making at appropriate levels is addressed in ways sensitive to the particular context of specific functional areas. As outlined in the Future Directions document, local government in SA is ready to engage with its communities and both Commonwealth and state governments to achieve better outcomes for communities, for the State and for the nation as a whole.

APPENDIX 1

Functions and costs transferred to South Australian Council's by other Governments

In September 2001 councils were surveyed to provide information and examples of functions on-passed by other governments. Examples quoted include the following:

TRANSPORT & COMMUNICATIONS	
Roads	<p>Decisions by other governments have reduced the viability of rail as a transport mode and approved trucks of larger mass limits, heavy vehicle freight has increased very significantly dramatically impacting on local road deterioration rates and increasing maintenance.</p> <p>The responsibility for installation, maintenance and renewal work along the shoulders of state controlled roads is a major issue for many councils. For example, councils provide and maintain kerbs, storm drains, parking bays and bus shelters along roads that are under the care and control of TSA.</p> <p>Commonwealth funding for local roads cut by \$8m in 2002/03 budget. State support cut from \$2.0 m to \$0.7m.</p>
Bike Paths	<p>Bike paths were initially planned and installed with State funding support – with the network not complete the State funding has been reduced and the demand for completion focuses on councils.</p>
Bus Shelters	<p>Bus shelters were originally a State responsibility. In the 1980s a joint funding program saw councils involved in contributing to the costs. Now the funding has all but evaporated and councils respond to community demand and in most circumstances are left with full costs.</p>
Aerodromes	<p>Twenty-three local aerodromes were transferred to country councils in the early 1990s. The Federal Government provided funding to upgrade them initially but now provides no ongoing support for maintenance.</p>
Television Transmission	<p>The Commonwealth has sought local government funding to support capital and operational costs under the Federal TV Black Spots program.</p>

HOUSING & COMMUNITY SERVICES	
Environmental Protection and Noise	The Environmental Protection Agency (EPA) does not provide resources for low-level environmental harm or nuisance issues, including noise complaints. This places pressure on councils to undertake this role, without resources or with only short term funding arrangements.
Stormwater	Major stormwater infrastructure costs are supposedly met 50/50 by State and LG. State funding for the Scheme was cut by half several years ago. There is now a very large backlog of major works (\$124m) meaning councils must either meet the full cost of progressing essential works themselves or expose their communities to high risk of flooding.
HEALTH & WELFARE	
Supported Residential Facilities	The Supported Residential Facilities Act introduced in 1996 has increased the roles and costs for councils which are now responsible for resourcing the assessment, inspection, and administration often with court costs involved. Local government was reassured that this would be cost neutral however income from license fees is insufficient.
Aged Care	Councils are contributing resources to the cost of constructing aged care facilities due to Commonwealth funding limitations.
Senior Citizens Centres	Were built or transferred to councils in the 1960s and 1970s with heavy Commonwealth and State funding. Now there is virtually no funding assistance for maintenance or replacement.
Health Inspections	The advent of diseases such as Legionnaires Disease has triggered a requirement for council inspection of cooling towers – as a result of the Public and Environmental Health Act. No resourcing is provided to councils for this work.
Doctors & Health Centres	Many rural councils are responding to the critical shortage of GP's and Allied Health Services in country areas. This includes incentives to attract GP's and the provision of houses and health centres.

RECREATION & CULTURE	
Recreation	Recreation funding from the State and Commonwealth has reduced or been focused on major sport or State/National facilities. Now approximately \$1 in every \$8 of council funding goes on recreation or sporting facilities or venues. Often the State provides small grants to sporting groups to establish or expand clubrooms on council property with ongoing implications, particularly in the event of club failure, falling to councils.
State Government Surplus Land Sales	Councils are required to purchase significant/important land surplus to the needs of the State Government at full market value, eg schools, open space. Previously this was transferred to councils for community purposes at a notional value.
Libraries	In the 1970s councils took on library management and development as part of a well supported Library Development Program in SA. Communities and councils have supported it strongly. However it began with a 50/50 funding approach between councils and State Government including capital development, now the figure is about 75/25 for operating costs as well as councils picking up all the capital costs. Country councils received public internet access terminals at no up front cost but there is no ongoing commitment to hardware maintenance/replacement costs.
Jetties	Most country jetties have been transferred to the councils to maintain (with significant capital costs met be the State Govt.)
PUBLIC ORDER & SAFETY	
Crime Prevention	Increased demand and expectation placed on councils to lead this area, including management of graffiti. Funding from State cut from \$1.4 m to \$0.6m in this year's budget with expectation councils will pick up shortfall.
Dog Management	When councils were given dog management responsibilities it was agreed that the State would set registration fees that fully covered councils costs to administer the legislation. Collectively councils now recover only 75% of their costs. The State has recently declined local governments' request to increase dog registration fees.

APPENDIX 2

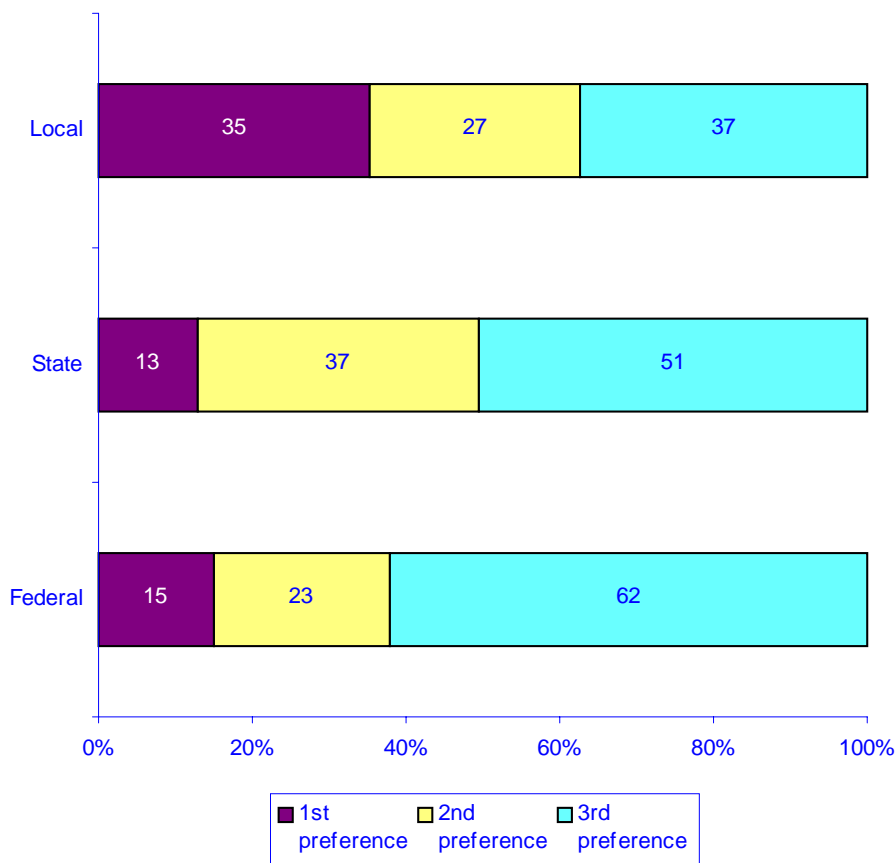
The following charts are extracted from community surveys undertaken for the LGA by McGregor Tan Research in July, 2001. A full copy of the survey reports can be found on: <http://www.lga.sa.gov.au/surveys.htm>

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Note: libraries and defence were included as “control” questions.

RANK THESE SPHERES OF GOVERNMENTS IN ORDER OF WHICH PROVIDES YOU WITH THE GREATEST VALUE FOR MONEY, WHERE 1 EQUALS THE GREATEST VALUE AND 3 EQUALS THE LEAST.



APPENDIX 3

The Advertiser

Date

Thurs
18th July

Funding cut hits council crime fight

By LOUISE TRECCASI

COUNCIL-RUN crime prevention programs targeting graffiti, car theft and house break-ins will be axed because of a "savage" cut in State Government funding.

The Government has slashed crime prevention program funding by \$800,000 - from \$1.4 million to \$600,000.

Attorney-General Michael Atkinson yesterday confirmed some council programs would be discontinued while others would be saved.

Councils warned the cut could result in increased crime.

"Crime prevention programs reduce the crime rate and fear of residents, and increase the sense of safety and security," Salisbury Council's community development manager, Michael White, said.

"If prevention programs are no longer, then crime is likely to increase."

Salisbury's crime prevention program focuses on four main areas - graffiti prevention, car offences, illicit drug use and community safety.

Its graffiti prevention program involves young offenders working with council staff to remove any graffiti.

Onkaparinga Council signed a three-year agreement with the previous government to continue its crime prevention program.

"We had no consultation from the new Government about the break in funding cuts," said city services general manager Beth Davidson-Park.

"We're in the loophole and not sure how it will impact councils.

"The fundamental right of any community is to feel safe and be safe. But the reality is an axe in the program would see an increase in crime."

Onkaparinga's Profiting from Prevention program from February to December, 2001, resulted in a 50 per cent reduction in break-ins and a 33 per cent reduction in car offences in the Lonsdale industrial area.

The Safety In Your Backyard project, which ran in the Morphett Vale and Reynella areas, resulted in the number of house break-ins dropping from 90 to 79 and the number of stolen cars falling from 26 to 14.

Local Government Association executive director John Comrie criticised the cut.

"It's a savage cut in funding because councils have been left in the dark and are not sure where their future lies," he said.

"There are some council staff who are worried they may have to start looking for another job."

Mr Atkinson said it was too early to say which councils would lose their programs because the Government was yet to consult councils.

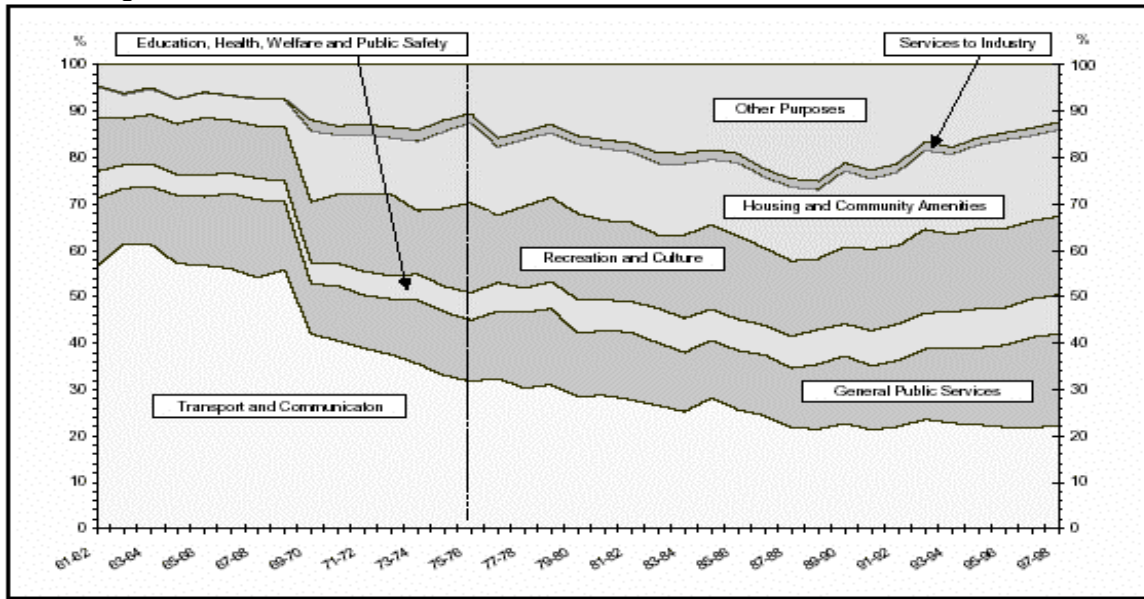
"We will be working to persuade local government to step in and help fund the programs so that the \$600,000 the State Government continues to spend in the area goes much further," he said.

The Government had to make savings in the Justice portfolio.

"We had the choice between continuing to fund local government crime prevention programs at their current high levels or maintaining police numbers and increasing funding to the prosecution service to overcome a backlog of home invasion cases," Mr Atkinson said.

APPENDIX 5

Figure 15-12 EXPENDITURE, SOUTH AUSTRALIA, 1961-62 TO 1997-98



Source: Unpublished ABS Government Finance Statistics

Source: Commonwealth Grants Commission draft report of the Review of the Operation of the Local Government (Financial Assistance) Act 1995.

Functional expenditure category examples:

Transport & Communication - roads, footpaths, bridges, cycle tracks

General Public Services - administration, governance, management, elected members

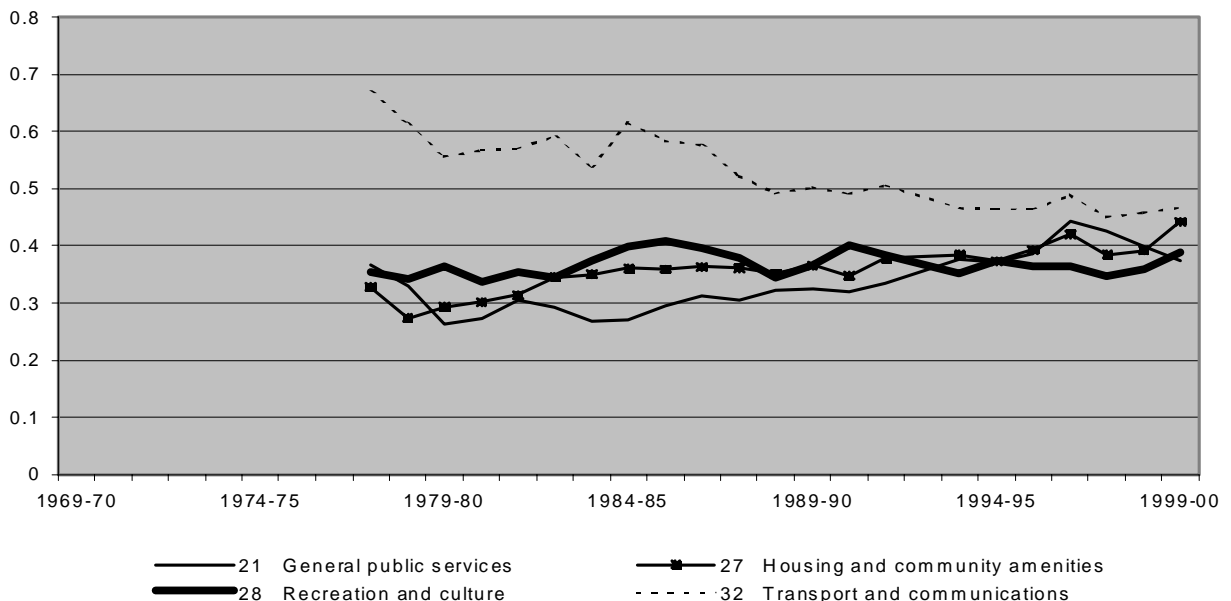
Education, Health, Welfare and Public Safety - emergency services, bylaws, health, immunisation, aged and family services

Recreation & Culture - Libraries, parks, swimming pools, sports facilities, cultural venues, national estate and heritage.

Housing and Community Amenities - Effluent disposal, water supply, town planning, waste management, storm water, lighting, cemeteries

Other Purposes - Electricity supply, building control, mining, landcare, airports, public transport.

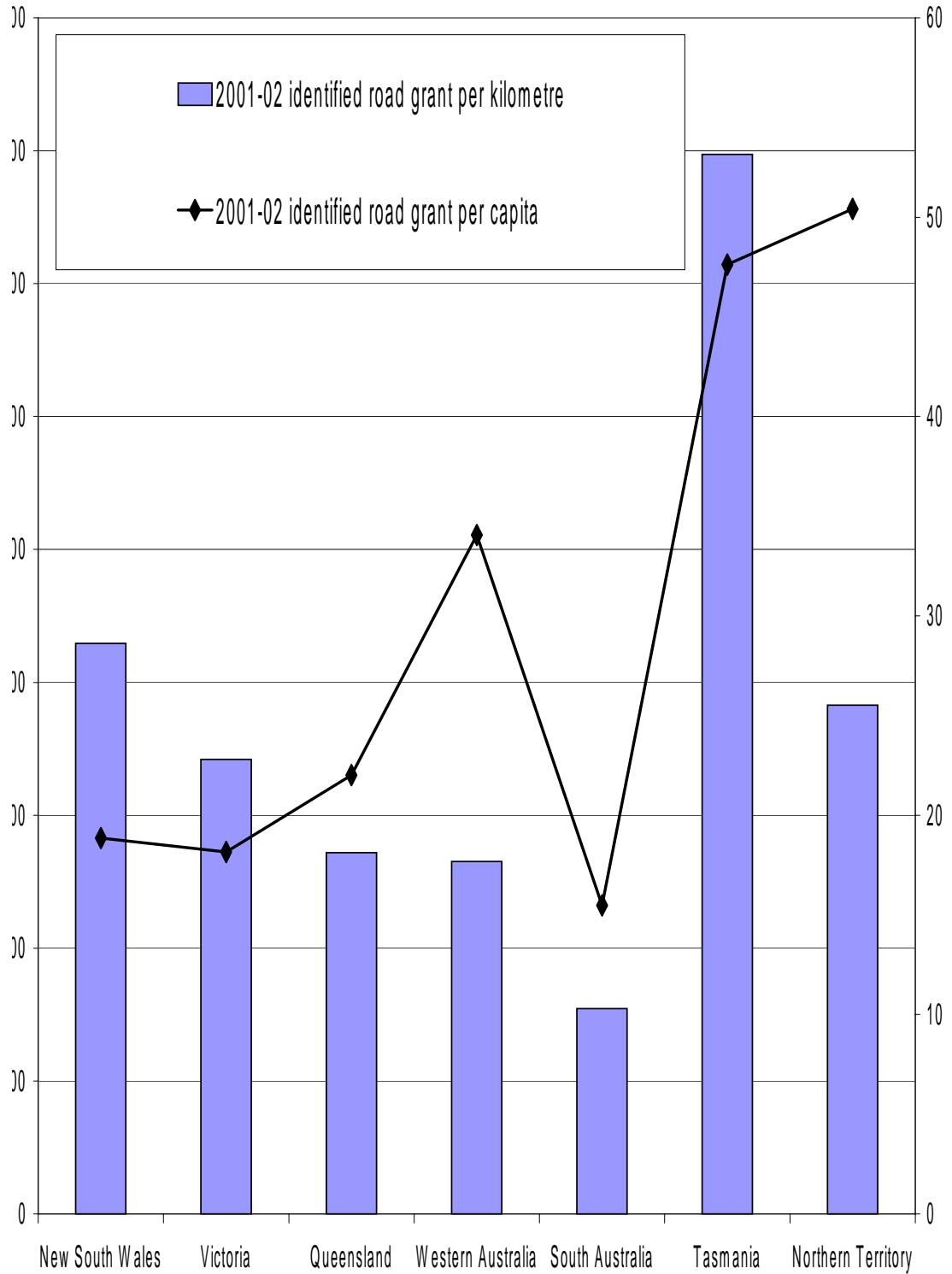
South Australian Local Government Cash Spending by Purpose - Per Cent Share of Gross State Product



Source : SA Centre for Economic Studies Report "Financing South Australian Local Government's Contribution to Community Development"

APPENDIX 6

Commonwealth Road funding by State and Territory (excluding ACT) 2001-02 Identified Local Road Grant



Source: South Australian Local Government Grants Commission

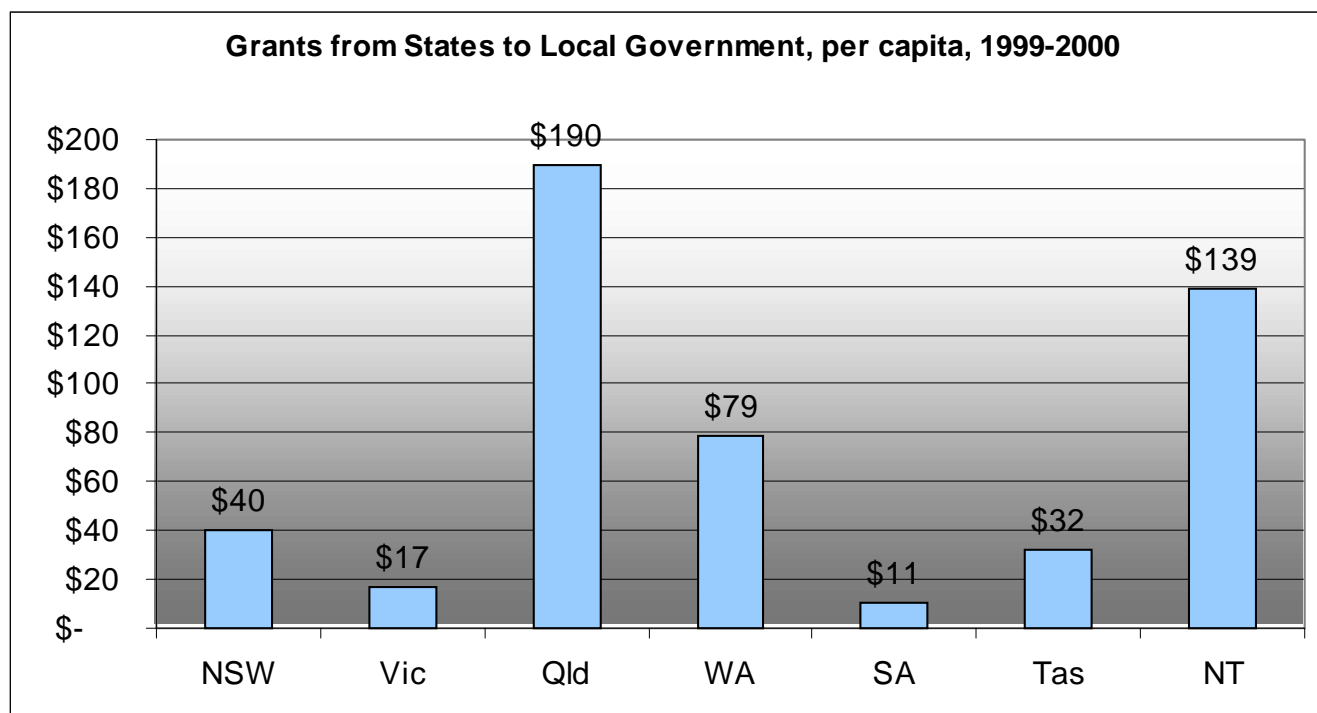
APPENDIX 7

Grants from States to Local Government by Purpose, 1999-2000 (\$m)

Purpose	NSW	Vic	Qld	WA	SA	Tas	NT	Total
General Public Services	2	5	5				8	20
Public Order & Safety	63		2					65
Health			6				4	10
Social Security & Welfare			5				1	6
Housing & Community Amenities	118	312	465		5			900
Recreation & Culture	23	59	34		10		2	128
Agriculture, forestry & fishing	7		6					13
Transport & Communication	150		137	209	23	30		549
Other Economic Affairs	2	3	1					6
Other	305		246	85	69	28	30	763
<i>Less Owth FAGS</i>								
General Purpose Grants	- 298	- 218	- 163	- 86	- 70	- 22	- 9	- 866
Local Road Funding	- 113	- 81	- 73	- 60	- 21	- 21	- 9	- 378
Net State Grants to Local Govt (\$m)	\$ 259	\$ 80	\$ 671	\$ 148	\$ 16	\$ 15	\$ 27	\$ 1,216

\$ Grants Per Capita	\$ 40	\$ 17	\$ 190	\$ 79	\$ 11	\$ 32	\$ 139	\$ 65
<i>State population Dec. 1999</i>	<i>6,451,658</i>	<i>4,741,468</i>	<i>3,539,491</i>	<i>1,873,842</i>	<i>1,495,830</i>	<i>469,870</i>	<i>194,268</i>	<i>18,766,427</i>

Source: Local Government National Report 2000-2001, table 2.5, pg 18.



APPENDIX 8

News Release



Hon John Hill

Minister for Environment and
Conservation

Mayor Johanna McLuskey

President of the Local Government Association

Wednesday the 7th of August, 2002

\$124 MILLION NEEDED TO ADDRESS FLOODING

A report commissioned by the former State Government and Local Government Association has identified \$124 million worth of outstanding stormwater drainage and flood mitigation works.

The Minister for Environment and Conservation, John Hill and President of the Local Government Association, Mayor Johanna McLuskey said the report, prepared by the Catchment Management Subsidy Scheme Review Committee, was commissioned in response to concerns about the level of funding for capital works to address flooding problems.

“The previous Government reduced the level of state funding for flood mitigation works by 50% from \$4 million to \$2 million, prompting concerns from councils through South Australia that vital capital works were not being done,” the Minister for Environment and Conservation, John Hill said.

“State and Local Government shares the view that action must be taken to address the long term problem with drainage in our urban areas, particularly in areas such as Unley and near Adelaide airport,” the Minister said.

“The increasing density of development in our urban areas has added to the pressure on our stormwater drainage systems.”

“It’s my hope that this report will lead to a greater focus on flooding issues as well as giving a high priority to the re-use of stormwater.”

“Local Government was disappointed that the previous Government cut funding for flood mitigation by 50% to the scheme, which, because Councils were matching the state funding dollar for dollar, meant a reduction of \$8 million over the past two years,” Local Government Association President, Mayor Johanna McLuskey said.

“Local Government wants an agreement with the State Government so we have a long term program of flood mitigation works being implemented, enabling financial plans to be prepared and providing the certainty which capital works programs require,” Mayor McLuskey said.

“The findings will be referred to the Local Government Forum to determine what action will be taken to address this backlog in flood mitigation and stormwater drainage works and to examine the recommendations in the report on ways to fund the necessary work.”

(Mayor Johanna McLuskey can be contacted on 0416-098198)

APPENDIX 9

Financing Local Government's Contribution to Community Development (Centre for Economic Studies) - Executive Summary

Appropriateness and adequacy of local government revenue sources

At present South Australian local governments fund their operations primarily from a combination of rate revenue, user charges and grants. When one considers the nature of the activities that local governments carry out, it is apparent that each of these mechanisms has a useful role to play. Most importantly, rates and user charges give local governments a substantial degree of discretion over revenue levels and thus levels of service provision. The conclusion of this study is that local government has available to it revenue sources which are broadly speaking appropriate and adequate, although there may be some room for improvement at the margins.

During the 1990s the structure of South Australian local government has been through a series of reforms designed to increase the capacity of local government to make strategic choices at the local level. This raises the prospect of local government taking a more active role in "non-traditional" fields of activity where these are seen as supportive of community development. These changes are a gradually occurring process.

At present local government budgets are under pressure. Accrual accounting aggregates show that local government has been running deficits on operations in recent years, and only substantial rises in the value of local governments' own land holdings have averted a fall in the net value of the local government sector.

In the late 1990s increases in the share of total spending have been in the areas of: sanitation and garbage, cultural services, "other purposes", libraries administration and footpaths. There have been only small increases in the share of spending on health and welfare. The spending share has fallen for parking, roadworks and bridges, sport and recreation, town planning, CFS (due to the introduction of direct funding arrangements from State Government under the Emergency Services Levy arrangements), land development and housing. The data are not suggestive of any substantial increase in the budget shares of social welfare or economic development functions.

Consultations with officials in the local government field reveal a range of upward pressures on local government spending. First, there are unavoidable costs associated with an upward creep of imposed standards, these arising from the actions of higher level governments (e.g. heightened accountability standards and consultation requirements) and judicial actions (extensions of concepts of liability and individual rights). Second, there appears to have been some cost shifting from State to local government, even if local government has had a degree of choice about whether to provide services that other governments have ceased. Third, there are community pressures to enhance services and introduce new services. And, finally, it is clear that councils face new budget pressures arising from infrastructure rehabilitation/replacement over the next 10 to 20 years.

Revenue pressures exist in terms of a long term decline in grant funds from higher levels of government and a keen community awareness of council rates. Councils feel constrained by electors in their ability to lift rates. Accountability measures in the recent legislative changes (such as requirements for rating policies) seem likely to enhance this pressure. At the same time, there is reluctance to increase the extent of user charges.

The fact that local governments in South Australia are keenly aware of financial stresses is not a sign of a failing system. It is at face value evidence of a system that is working as it should. But this in itself does not mean that the mix of revenue instruments available to local government is ideal for its roles.

Theoretical principles suggest that the optimal structure of council revenues depends upon the roles that councils are required to carry out. It is possible to make a conceptual separation of these roles into two categories: the provision of services which are funded according to a benefit principle, and interpersonal distributive activity which involves shifting the revenue mechanism away from a benefit principle in accord with principles of equity. The distinction is useful because the differences in objectives suggest different design criteria for the associated revenue instruments.

Where the objective is to fund according to a benefit principle, local government should have available to it mechanisms which allow it to implement user charges for private and club goods, and tax mechanisms which enable it to target effectively the beneficiaries of public goods. A central conclusion of this report is that general rates, supplemented with the power to set more closely targeted other rates, provide a reasonably good benefit tax for recovering the costs of local public goods. User charges and rates account for the bulk of local government revenues at present.

Whether or not councils have optimised the mix of user charges and rates to achieve the best possible targeting of benefits is a separate question. However, it is important to note that councils appear to have the flexibility to change the balance of user charging and rates if they choose to do so.

Although the revenue instruments available to local government are believed to be broadly adequate for the purpose of benefit funding, this is not to say that they have the best possible set of instruments. The matter of possible enhancements is discussed subsequently.

To the extent that there is a need to finance general public services and interpersonal distributive activity by local government, rates are probably a less than ideal tax base although certainly better than many alternatives. The ideal might be to finance these costs by means of income or consumption taxes set at uniform rates across jurisdictions. Arguably this is what happens now – the Commonwealth Government provides untied grants to local governments from its own tax collections and income taxes are a major component of these. The alternative of grants from State Government financed from, say, payroll taxes or transactions taxes is probably inferior to rate revenue.

In 1999-2000 untied grants amounted to about 10 per cent of South Australian councils' revenues. Whether or not this is adequate to meet aggregate distributive burdens is unclear. But what is clear is that the inequitable distribution of these funds, owing to incomplete fiscal equalisation arrangements, means that some councils through no fault of their own face relatively larger distributive burdens than other councils, with these extra burdens apparently passed on to ratepayers.

Options for supplementing or displacing existing revenue sources

It follows from the previous discussion that measures to supplement or displace existing sources of local government revenues may be warranted primarily on grounds that:

- they achieve more effective targeting of benefit taxation; or
- they are more efficient and equitable means of funding interpersonal distributive activity.

In many cases local government already is able to impose user charges, although it may choose not to do so. Two interesting possibilities for the extension of these powers are into the field of road use charges and use charges for environmental resources. The conclusion reached is that "fee per use" arrangements for roads probably have limited merit at the local level as local roads typically do not suffer congestion. There may be a case for extending local government's powers to charge fees for environmental "bads", although there are likely to be major practical difficulties in the way, including the High Court's interpretations of excise clauses in the Constitution and community resistance to councils appearing to make money out of environmental degradation.

Local government's capacity to carry out targeted benefit taxation is supported by its capacity to set different rates in the dollar for different land uses, to set fixed charges and to set minimum rates, and

to set other rates for specific activities and for small areas. However, it is possible that this targeting could be reinforced by the provision of instruments which more directly address beneficiary groups.

The power to impose a local registration charge (on top of State charges) would allow more direct targeting of road costs at those users who register vehicles locally. It does, however, have a disadvantage in that it does not target vehicles from outside the region which use the road network. Some land parcels which benefit significantly from the local road network, but which do not have vehicles registered at them, would effectively receive exemption from the costs. For example, a supermarket might make reduced contributions to local road costs on the basis that it does not have vehicles registered at it. The case for local registration fees is clearly ambiguous.

If it is thought to be desirable to enhance local government's capacity to finance interpersonal distributive outcomes above and beyond the current level of untied grants, the most satisfactory mechanism for doing so is probably a levy on income or consumption imposed by the Commonwealth at uniform rates across jurisdictions with the proceeds remitted to local government. Such an approach has a secondary advantage in that it would allow the local government fiscal equalisation system more closely to approach the goal of equalisation. A system like this could involve the Commonwealth agreeing to some negotiated increase in financial assistance grants to local government. Or a more complex variant might allow local governments themselves to set a tax rate on the Commonwealth income or consumption tax bases, with the Commonwealth acting as a collector. The latter mechanism entails more discretionary powers for local government.

Preferred options

The preferred options that emerge from this analysis are as follow.

First, local government needs to recognise that it is primarily responsible for its own revenue raising. It has user charge and rate mechanisms to allow it to do this. In the years ahead it will face continuing spending pressures in the form of imposed standards, cost shifting, new service demands and an increasing asset refurbishment task. The decision whether or not to accommodate these pressures has direct ramifications for revenue levels. If local electors want the services, they will need to pay councils to provide them either via user charges or rates.

Second, there is a case for councils continuing to think about the mix of revenue instruments that they use. There may be a case for greater use of user charges. There may also be a case for more extensive use of special rates. If not, the role to be played by general rates will be correspondingly higher.

Third, while it might be possible to allow councils access to some new forms of user charges and benefit taxation, and while there is probably little harm in doing so, it is not clear that councils particularly want these powers or that they would use them extensively. Road user charges and local vehicle registration fees, for instance, could take the pressure off general rates but pose some difficulties of their own. There is considerable interest around the world in allowing local governments access to taxes on environmental bads, and there is a good economic case for doing so, but as noted previously there are major legal complications with doing so in Australia.

Fourth, there is a case for giving local government access to a growing grant stream, for instance one linked to the Commonwealth income or consumption tax bases. The case for an expansion of grants rests on the benefits that would flow in terms of improved equalisation outcomes. But even if no major increase were to be contemplated, it should be recognised that under the current "real per capita maintenance" arrangements grants have gradually dwindled as a proportion of local governments revenues. Linking the grant quantum to one of these bases would leave general purpose grants as a minority component of the local government revenue structure, but rising broadly in line with incomes to accommodate expenditure pressures that are also income elastic. Local government has, and will continue to have, some obligations to implement which are of a distributive nature and therefore not amenable to recovery from benefit taxation.

It may be unrealistic to ask the Commonwealth to entertain an arrangement in which local government (collectively) has discretion over the setting of an income tax surcharge. But an arrangement which linked growth in Financial Assistance Grants to growth in the income or consumption tax bases would provide a stable measure of support for local government in its interpersonal distributive obligations and assist with the implementation of fiscal equalisation.

APPENDIX 10

