

botany bay

canterbury

hurstville

kogarah

marrickville

sandwich

rockdale

south sydney

sutherland shire

waverley

woollahra



S S R O C

southern sydney regional
organisation of councils

29 July 2002

The Secretary
House of Representatives
Standing Committee on Economics,
Finance and Public Administration
Parliament House
CANBERRA ACT 2600

Re: Inquiry into Cost Shifting onto Local Government

Please find attached SSROC's submission to the Inquiry into Cost Shifting onto Local Government.

I would like to draw the Committee's attention to the following:

- SSROC would like the opportunity to provide a supplementary submission. Our supplementary submission would update some of the data provided in the tables and case studies.
- SSROC would welcome the opportunity to appear before the Committee at a public hearing.
- We would be happy to provide any additional material to support the points raised in our submission.
- Member councils of SSROC may also be making individual submissions to the Inquiry.

Finally, should the Committee wish to hold public hearings in Sydney, I would be happy to arrange for an appropriate venue. Please do not hesitate to contact me if I can be of assistance in this regard.

Yours sincerely

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*southern sydney regional
organisation of councils*



Southern Sydney Regional Organisation of Councils

SUBMISSION TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Inquiry into Local Government and Cost Shifting

**Prepared with assistance from
UTS CENTRE FOR LOCAL GOVERNMENT**

July 2002

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SUMMARY AND RECOMMENDATIONS

Local government is experiencing intense cost and revenue pressures that are impacting adversely on its capacity to deliver the services communities need and expect, and to play its full role in the overall system of government.

As the recent report of the Commonwealth Grants Commission has shown, local government's responsibilities and functions have expanded dramatically over the past few decades, and it has moved strongly into the field of human services and environment protection. Yet at the same time local government's share of total public sector revenues and expenditures has declined significantly. These changes have occurred largely in a policy vacuum without any broad intergovernment agreement on the role local government should be expected to play.

Had local government revenues grown as rapidly as those of the Commonwealth over the period since 1961-62 (but still nearly 2% per annum slower than the States), councils across Australia would have raised an extra \$3 billion in 1997-98.

Local government lacks a 'growth tax'. Property rates are highly sensitive to the capacity to pay of landowners with limited annual incomes - pensioners, farmers, lower income workers etc. Commonwealth financial assistance grants (FAGs) grow at best in real per capita terms, but this is now slower than equivalent payments to the States made from GST revenues, and the Commonwealth did not grant local government a share of National Competition Policy payments. Moreover, local government costs increase faster than the CPI used to calculate FAGs.

In New South Wales, local government's discretionary income has been further constrained by a combination of rate pegging and increasing State government levies, such as those for fire brigades and waste disposal.

In the southern Sydney region, these State government levies amount to around half of total FAGs payments.

There has been substantial cost shifting to local government by the NSW State government. This submission documents several examples. The submission also raises the issue of cost shifting by the Commonwealth.

As a result of these pressures, local government across Australia is now seriously under-funding infrastructure provision and maintenance. Studies point to a shortfall in infrastructure maintenance alone of around \$1 billion per annum.

This problem with infrastructure funding will only increase unless corrective action is taken. Otherwise the Commonwealth can expect continuing pressures to fund programs such as 'Roads to Recovery', which are essentially short-term palliatives. It is thus in the Commonwealth's direct interests to address the underlying weakness of local government's financial position.

Better-resourced local government can certainly expand its role still further in meeting emerging community needs. Many programs would benefit from local government participation in their planning, delivery and coordination on a local or regional basis.

However, this will also require a proper policy framework and improved intergovernment relations through cooperative strategic planning and partnership arrangements.

RECOMMENDATIONS

Terms of Reference

SSROC notes that the Terms of Reference do not preclude reference to Commonwealth cost-shifts and that 'budget neutral' should be interpreted in the context of a wide range of related Commonwealth programs, not just current direct funding to local government.

SSROC favours a broader definition of cost-shifting that also encompasses imposition of charges and revenue limitations on local government, as well as resumption of profitable functions or assets such as electricity distribution.

The Capacity of Local Government

The Commonwealth needs to work with State and local governments to:

- 1) Articulate an agreed vision for local government's future role and place in the federal system*
- 2) Ensure adequate financial assistance for councils and removal of unwarranted financial constraints*
- 3) Provide political support for councils to implement sound financial management, including increased rates and charges and loan raising where appropriate.*

The Commonwealth should reinstate some form of local government capacity building program, and consider options for an organisation along the lines of the UK Improvement and Development Agency.

Opportunities at the Regional Level

The Commonwealth should review its existing regional and related programs with a view to re-engaging more broadly with the management of metropolitan regions, in cooperation with state and local governments.

When pursuing regional initiatives, both State and Commonwealth agencies should as a general rule work with bodies such as regional organisations of councils or other established arrangements within local government. This would build on existing strengths and over time generate the capacity for local government to undertake a broader range of functions on a regional basis.

The Commonwealth can foster this process, and thus create more opportunities to engage local government in promoting its own agendas, by:

- providing increased support for regional organisations of councils or their equivalents through its regional programs*
- initiating some pilot projects to explore options for expanding the delivery of selected programs through local government on a regional basis - for example, the NHT.*

Scope for Rationalisation

To advance both its interests and the system of government, the Commonwealth should take the following steps:

- *Initiate discussions through the Local Government Ministers Council and subsequently COAG in order to*
 - *formulate a broad agreement on the role of local government in the federal system*
 - *consider various models for cooperative planning and partnership agreements, also including Commonwealth agencies*
 - *review the impact of existing financial arrangements on the capacity of local government to play an enhanced role, and hence the capacity of the public sector as a whole to provide quality services to local communities*
 - *specifically consider action required to address shortfalls in infrastructure maintenance and renewal.*

- *Emphasise the potential contribution of local government in its various regional programs, with a stronger focus on cooperative planning amongst the three spheres of government and subsequent delineation of roles and responsibilities for implementation.*

Commonwealth Grants Commission Review

SSROC believes that the annual growth formula for FAGs should be fixed, and the Treasurer's discretion removed, but subject to regular reviews of the legislation by the Commonwealth Grants Commission.

The legislation needs to be tightened to prevent misuse of FAGs for purposes contrary to the interests of elected local government. Provision should be made for disallowance of a declaration by the Parliament. At the very least, there should be consultation with local government before the ministers can move to declare Local Government Bodies (LGBs).

This raises the question of whether the provision of FAGs to local government should be linked to Commonwealth-State financial relations in a way that ensures the Commonwealth's policy intent is upheld. SSROC believes this should be matter for the next Commonwealth-State financial agreement. So should the question of whether FAGs should be funded from a fixed share of the GST - or the annual rate of increase matched to that of GST transfers to the States - thus providing local government with a much-needed 'growth tax'.

PART 1. INTRODUCTION

The Southern Sydney Regional Organisation of Councils (SSROC) welcomes the opportunity to make a submission to the House of Representatives Inquiry into Local Government and Cost Shifting.

This submission represents an initial response to the Inquiry's broad terms of reference. SSROC looks forward to discussing its views with members of the Economics, Finance and Public Administration Committee at one of its public hearings, and may seek to table a supplementary submission at that time or in response to matters raised at the hearing.

As far as possible, SSROC will be happy to provide any further information the Committee might require.

1.1 Composition and Role of SSROC

The Southern Sydney Regional Organisation of Councils (SSROC) is a voluntary grouping of councils established in 1986. Its aim is to achieve sustainable solutions to the challenges facing the southern Sydney region through the sharing of resources, cooperation in policy development and regional advocacy.

Councils represented are:

- Botany Bay City
- Canterbury City
- Hurstville City
- Kogarah
- Marrickville
- Randwick City
- Rockdale City
- South Sydney City
- Sutherland Shire
- Waverley
- Woollahra.

Together these eleven councils represent more than one million people.

Two voting delegates (usually the Mayor and Deputy Mayor) represent member Councils on the SSROC board. Each year three of the delegates are nominated to become the President and two Vice Presidents who together form the Executive.

SSROC has a committee structure to facilitate elected councillor input to the regional program. Three (3) Standing Committees make recommendations to the quarterly board meetings. These committees cover:

- Administration and Community Development
- Planning and Environmental Issues
- Transportation Policy.

SSROC's day-to-day work is undertaken by a three person secretariat, which at times is supported by project staff engaged using grant funding or additional council contributions.

Professional groupings of council officers work with the secretariat to develop and implement SSROC policies and programs. These groups cover the broad spectrum of council activities, and include: community services, environmental management, asset management, public works, supply management, road safety, transport planning, land use planning, and general management.

SSROC's work program is structured to respond to the priorities identified and agreed by the members. It includes regional initiatives that contribute to SSROC's aim of improving the social, environmental, economic and other quality of life opportunities in the region. Program outcomes include regional agreements, policies, guidelines etc. Activities are funded by member council contributions and grant funding.

Recent and current projects include:

- **SSROC Joint Purchasing Program** – to bulk purchase goods and services.
- **Botany Bay Program** – an integrated planning project for the Bay and catchment.
- **East Timor Partnership** – assisting to rebuild partner communities in East Timor through capacity building and co-operation
- **Affordable Housing**– position paper proposing actions to maintain and encourage the provision of affordable housing in the southern Sydney area
- **'FleetSafe'** - a model policy and guidelines for improving driver and vehicle safety
- **Road Safety** – various campaigns
- **Sustainability Initiatives** - including production of *Guidelines for Decision Makers*, a sustainable purchasing policy and questionnaire
- **Environmental Improvement Programs** - including soil and water management guidelines, contaminated land management policy, stormwater initiatives
- **'Green Web Sydney' and Southern Sydney Seed Banks** – to establish, protect and maintain biodiversity corridors
- **Various projects to assist councils meet statutory obligations and improve services** - including records management, street lighting, planning (section 149) certificates
- **Lobbying and Advocacy** - a wide range of initiatives.

Full details are provided in SSROC's latest Annual Report (attached).

1.2 Characteristics of Member Councils

Table 1 shows some of the key characteristics of SSROC's eleven member councils.

Table 1 - Key Characteristics of SSROC member councils

Council	Area (sq km)	Population	Growth Rate %	Total Revenue \$m	Total Expenditure \$m
Botany Bay	26.75	36,036	0.45	28,379	29,040
Canterbury	33.39	139,770	0.78	59,802	61,931
Hurstville	24.77	70,390	1.03	39,623	35,794
Kogarah	19.51	52,058	1.65	23,721	26,959
Marrickville	16.48	79,871	0.44	54,222	48,032
Randwick	36.51	126,665	1.54	57,851	60,599
Rockdale	29.33	91,218	0.95	41,783	41,070
South Sydney	17.79	85,859	4.60	97,595	96,361
Sutherland Shire	370.91	211,782	1.23	130,086	111,451
Waverley	8.99	65,009	1.47	46,107	45,363
Woollahra	12.19	54,572	1.46	40,143	42,828
Total Region	596.62	1,013,230	1.42	619,312	599,428

Source: *Comparative Information on NSW Local Government Councils 1999/00*, NSW Department of Local Government

Note: Revenue and expenditure calculations can vary substantially from one source to another depending on the treatment of various items

Physical Characteristics

The Southern Sydney Region stretches along the harbour and coast from Sydney's central business district south to the Royal National Park, and south west into older middle-ring suburbs and to lower reaches of the Georges River. It is thus extremely diverse both physically and in its socio-economic characteristics.

The region includes major industrial and commercial areas as well as two of Australia's most important economic gateways: Sydney Kingsford Smith Airport and Port Botany. It also features other important land uses which play a major role on a metropolitan and state-wide scale, such as:

- Australia's only nuclear reactor at Lucas Heights
- three universities
- several teaching hospitals

Southern Sydney is endowed with important waterways, natural features and heritage items that must be protected and enhanced, including:

- Botany Bay
- Royal National Park
- Cooks, Georges, Hacking and Woronora Rivers
- Sydney Harbour foreshore areas
- significant wetlands
- internationally recognised beaches, such as Bondi, Maroubra and Cronulla.

Many of these icon sites present special management challenges for local government - particularly as they are loved and enjoyed by all Sydney-siders as well as international tourists - whilst councils meet the bulk of costs for their care, protection and maintenance.

Social Profile

Southern Sydney is home to perhaps the most culturally diverse population in the nation. The SSROC region has higher proportions of immigrants from every continent than the State average, with just 61% of its population being born in Australia, compared with the State average of 73%. Twenty-seven percent of the region's population come from non-English speaking backgrounds – almost double the NSW average.

Escalating property prices also present serious challenges to councils striving to ensure a diverse social mix. There has been severe erosion of affordable housing stock, resulting in the dispersal of families forced to look outside the region and away from established social networks for accommodation.

1.3 Interpretation of Terms of Reference

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into:

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

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

The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

Many people in local government have expressed disappointment that the Terms of Reference do not also refer to cost-shifting by the Commonwealth and that they are limited by the 'budget neutral' requirement.

However, SSROC notes that the Terms of Reference do not preclude reference to Commonwealth cost-shifts, and that 'budget neutral' can be interpreted in the context of a wide range of related Commonwealth programs, not just current direct funding to local government.

It is also important at the outset to consider the definition of 'cost shifting'. A narrow definition might include only those cases where the cost of particular expenditure programs has been partly or fully transferred to local government without any concomitant transfer of resources - 'unfunded mandates'.

SSROC favours a broader definition of cost-shifting that also encompasses imposition of charges and revenue limitations on local government, as well as resumption of profitable functions or assets such as electricity distribution.

1.4 Structure of this Submission

The remainder of this submission is divided into six parts. These address each of the Inquiry's Terms of Reference, but with some changes to the sequence in order to present a clearer argument.

- Part 2 deals with local government's roles, responsibilities and expenditure patterns (Terms of Reference 1 and part 4)
- Part 3 discusses funding arrangements (Term of Reference 2)
- Part 4 deals with impacts on local government's financial capacity as a result of changes in state-local relationships (balance of Term of Reference 4)
- Part 5 addresses the capacity of local government to meet existing obligations and take on an enhanced role (part of Term of Reference 3)
- Part 6 deals with opportunities at the regional level (balance of Term of Reference 3)
- Part 7 explores the scope for achieving a rationalisation of roles and responsibilities (Term of Reference 5)
- Part 8 responds to the Commonwealth Grants Commission Review (Term of Reference 6)

PART 2. EXISTING ROLES AND RESPONSIBILITIES

2.1 Overview

By international standards, local government in Australia plays only a small role in the overall public sector. It accounts for about 4% of total government revenue and 5% of expenditure.

This reflects the particular characteristics of Australia's federal system in which the States and Territories handle many of the functions performed to varying degrees in other countries by local government - functions such as education, health, policing, main roads, public transport, electricity distribution, and water and sewerage (except in Queensland, Tasmania and non-metropolitan New South Wales).

In countries such as Japan and the Philippines, some of these State/Territory functions are similarly handled at a provincial level, but the provinces or prefectures are themselves seen as part of the system of local government, rather than a separate and dominant sphere. Even in other federations, notably the United States and Canada, local government plays a significantly stronger role.

Throughout Australia, Local Government began as an offshoot of colonial administration, providing infrastructure and property services - especially roads - that needed to be funded from local taxes. The colonies saw local government as a necessary platform for local works and regulation, and a means of raising additional revenue, rather than an exercise in local democracy. The local government acts of the early 20th Century reflected this 'minimalist' view, generally limiting local government to a narrow 'roads, rates and rubbish' framework.

This picture began to change after the Second World War with the advent of the welfare state and the general expansion of government activity through the fifties, sixties and seventies. Central governments saw local Councils as a handy means to implement diverse policies, and required or encouraged them to do more through legislation and provision of grant funding. Three key elements of change can be identified:

- emergence of a number of much larger local Councils as a result of population growth and amalgamations, particularly in some regional centres and in middle and outer suburbia
- sheer growth in the range and scale of service delivery and regulatory activities undertaken by Councils - often prompted by federal and/or State governments
- the advent of statutory and strategic planning as a principal Local Government function.

These changes had far-reaching, and perhaps unintended, consequences. To discharge their increased responsibilities, Councils had to implement more sophisticated organisational and decision-making arrangements, and introduce improved management systems. With the responsibility for planning and development control came heightened community awareness of the significance of local government decisions, particularly during a period of increasing concern about environmental issues. At the same time, the larger and better-resourced Councils were seen to have the capacity to make a real difference to local quality of life, and to expand their range of activities still further if need be.

The community now expects local government to do more - to be the means by which local priorities and concerns are addressed, even if the issues involved are not fully or even partly the responsibility of councils. It is now widely agreed that as people have become wary or worried about the impacts on their lives of globalisation and a dominant economic paradigm, they have focussed more on the need for supportive, secure local communities. Central governments often appear remote and disconnected, and local government has increasingly been regarded as the vehicle by which communities can address their concerns - whether they be about jobs, quality of the environment, loss of local services or crime.

Thus councils have been drawn ever deeper into economic development, pollution control, environmental repair, social support, community safety, telecommunications and other areas previously handled more or less exclusively by the Commonwealth and States. Additionally, local government is expected to be the principal advocate for local communities, representing their views to other spheres of government.

2.2 Local Government in New South Wales

The roles and responsibilities of local government in NSW - and hence of SSROC member councils - are set out in the Local Government Act 1993.

The broad contribution now expected of local councils in New South Wales is made clear in section 8 of the Local Government Act. This presents the Council's charter, described as 'a set of principles ... to guide a council in the carrying out of its functions'. These are:

- To provide directly, or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively*
- To exercise community leadership*
- To exercise its functions in a manner that is consistent with and actively promotes the principles of cultural diversity*
- To promote and to provide and plan for the needs of children*
- To properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development*
- To have regard to the long term and cumulative effects of its decisions*
- To bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible*
- To facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government*
- To raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants*
- To keep the local community and the State government (and through it, the wider community) informed about its activities*
- To ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected*

- *To be a responsible employer.*

It is notable that traditional responsibilities relating to infrastructure and service provision are now explicitly balanced by broader roles in terms of community leadership, environmental management and cultural diversity.

Sections 21-23 of the NSW Act go on to define councils' functions in the following broad terms:

- s21** *A council has the functions conferred or imposed on it by or under this Act.*
- s22** *A council has the functions conferred or imposed on it by or under any other Act or law.*
- s23** *A council may do all such things as are supplemental or incidental to, or consequential on, the exercise of its functions.*

Functions under the Local Government Act are categorised into service, regulatory, ancillary, revenue, administrative, and enforcement. They are not fully specified, but the Act provides a series of examples under each category. It also includes a Note that lists other legislation under which councils are empowered or required to carry out various functions. The list now includes:

- Community Land Development Act 1989
- Companion Animals Act 1998
- Conveyancing Act 1919
- Environmental Planning & Assessment Act 1979
- Fire Brigades Act 1989
- Fluoridation of Public Water Supplies Act 1957
- Food Act 1989
- Impounding Act 1993
- Library Act 1939
- Protection of the Environment Operations Act 1997
- Public Health Act 1991
- Recreation Vehicles Act 1983
- Roads Act 1993
- Rural Fires Act 1997
- State Emergency Services Act 1989
- Strata Schemes Acts 1973 and 1986
- Swimming Pools Act 1992
- Waste Minimisation and Management Act 1995

The NSW Act stops short of conferring on Councils a 'general competence' power granted in some other jurisdictions. Such powers enable councils, within lawful limits, to do whatever may be necessary for the good governance of their areas – or words to that effect. Nevertheless, the broad definition of functions under sections 21 and 22, coupled with the supplementary powers granted by section 23, has much the same effect.

In summary, the principal activities of NSW local government may now be stated as follows:

- Construction and maintenance of roads
- Water supply and sewerage (outside the Hunter and Sydney-Wollongong areas)
- Drainage and flood mitigation

- Waste management and minimisation
- Management of parks and community land
- Strategic land use and transport planning
- Development and building approvals
- Environmental management
- Public health and safety
- Pollution control
- Control of pests and noxious weeds
- Recreation and leisure facilities and services
- Community and cultural development, including planning and provision of facilities and services
- Library services
- Local economic development and tourism promotion
- Licensing and regulation

2.3 Patterns of Expenditure

Table 2 shows the number of NSW Councils in each of several population and expenditure categories, whilst Table 3 shows total NSW outlays by type of service, compared to Australian Local Government as a whole.

Table 2 - Population and Expenditure of NSW Councils 1997-98

1997 Population (000s)	Number of Councils	Operating Expd 1997-98 (\$m)	Number of Councils
<5	47	<5	9
5-10	32	5-10	48
10-20	23	10-20	43
20-50	32	20-40	37
50-100	24	40-60	22
100-150	11	60-80	6
150-200	6	80-100	7
>200	2	>100	5

Source: Comparative Information on NSW Local Government Councils 1997-98, NSW Department of Local Government

Table 3 - Local Government Outlays by Purpose 1999-2000

Type of Outlay	NSW \$m	NSW %	Australia \$m	Australia %
General public service	805	15.8	2,588	17.4
Public order and safety	121	2.4	281	1.9
Education, health and community services	237	4.6	1,051	7.1
Housing and community amenities	1,217	23.9	3,390	22.8
Recreation and culture	540	10.6	1,938	13.1
Transport and communication	1,837	36.0	4,378	29.5
Other	344	6.7	1,212	8.2
TOTAL	5,101		14,838	

Source: Local Government National Report 2000-01, National Office of Local Government

In its recent Review of the Local Government (Financial Assistance) Act 1995, the Commonwealth Grants Commission (CGC) clearly demonstrated the significant changes in local government's expenditure patterns and priorities that have occurred over the past 30 years in response to the functional changes discussed in sections 2.1 and 2.2. These are summarised in Table 4.

As the Grants Commission notes, these changes represent a very marked shift from services primarily to property, to services for people. Expenditure on transport - mainly roads - has almost halved in relative importance, whilst the share of total expenditure allocated to recreation and community services has nearly trebled.

Table 4 - Changes in Local Government Expenditure 1961-2 to 1997-8

Function	Expenditure 1961-62		Expenditure 1997-98		Average Annual Growth
	\$ million	% of total	\$ million	% of total	
Transport	1,534	48.9	3,275	27.1	2.1%
General Public Services	651	20.8	1,539	12.7	2.4%
Education, Health, Welfare, Public Safety	120	3.8	1,403	11.6	7.1%
Recreation, Culture	248	7.9	2,217	18.3	6.3%
Housing, Community Amenities	341	10.9	2,348	19.4	5.5%
Services to Industry	30	1.0	188	1.6	5.2%
Other	210	6.7	1,121	9.3	4.8%
TOTAL	3,133		12,090		3.8%

Source: Commonwealth Grants Commission

An important point to make here is these changes have occurred largely in a policy vacuum: the Commonwealth has no policy on the role of local government in the federal system, whilst most States have given little consistent attention to the **overall** changes in local government roles and responsibilities. For example, although the 1993 Local Government Act in NSW introduced important new concepts such as community leadership and sustainable development, they have not been set within a broader framework indicating how local government's activities and priorities might change to accommodate new and expanded functions, or how its relationships with the State might need to be adjusted to take account of councils' changing responsibilities.

It also needs to be emphasised that changes in local government's functions and priorities have not occurred uniformly across Australia or even within States. Varying approaches reflect significant differences in:

- State/Territory policies and legislation
- circumstances, needs and expectations of local communities
- financial and human resources.

In general, it is probably fair to say that larger metropolitan and regional councils, such as the members of SSROC, have made the biggest moves into the new areas of environmental management, human services and economic development, coupled with a strong focus on strategic and community planning to underpin their efforts. Smaller rural councils have had

less capacity to take on these wider roles, and often less urging from their communities to do so, although many have made significant contributions at a local scale.

Examples of new or expanded functions being undertaken by SSROC councils include:

- *Community Safety and Crime Prevention* - for example installation of costly closed circuit television monitoring of commercial centres, graffiti removal and youth crime prevention.
- *Housing Affordability* - studies, planning controls, negotiation with developers and assistance to community organisations to help maintain the stock of affordable housing in the region, particularly inner suburbs.
- *Environmental management* - notably creation of wetlands, establishment of biodiversity corridors, various initiatives to promote alternative energy sources and reduce emission of Greenhouse gases, and establishment of a specialist environmental science unit.
- *Heritage Protection* - both through planning controls and specific restoration projects.
- *Economic development* - increasing support for joint initiatives with business and community groups.

PART 3. CURRENT FUNDING ARRANGEMENTS

3.1 Recent Trends

Table 4 shows some of the key changes in government revenues and outlays over the past four decades. The figures pre-date the impact of the GST.

Table 5 - Growth in Government Revenues and Outlays

	Federal	State	Local
Average annual % growth in own source revenue			
1961/2 - 1997/8	4.7	6.6	3.7
1974/5 - 1997/8	3.7	4.9	3.3
Average annual % growth in own purpose outlays			
1961/2 - 1997/8	4.8	5.2	3.5
1974/5 - 1997/8	4.1	3.2	2.6
Fiscal self-sufficiency			
1997/8	1.26	0.6	0.8

Source: Commonwealth Grants Commission

Despite its ever widening functions, local government's share of government revenues and outlays has actually declined over that period - a remarkable paradox. By contrast, the States have grown much faster, partly to reduce their dependence on federal grants.

It is worth recording that, had local government revenues grown as rapidly as those of the Commonwealth over the same period - but still nearly 2% per annum slower than the States - councils across Australia would have raised an extra \$3 billion in 1997-98.

Local government in NSW has grown at about the average rate, but slower than in Queensland, Western Australia and South Australia. (The figures for Victoria are severely distorted by the 20% cut in rates enforced by the Kennett Government in the mid 1990s.) This reflects in part the impact of rate pegging, introduced in the late 1970s. NSW local government also exhibits the equal highest reliance on own source revenue and the second lowest percentage of revenue from State grants.

Although local government overall has declined relative to the other spheres of government, increase in both revenues and expenditures have outpaced the CPI, suggesting real terms growth. This statistic is somewhat misleading; however, as local government's cost structure is significantly higher than the CPI 'basket of goods'. The result is that local government's move into a broader range of community services has come at the expense of maintaining adequate levels of investment in infrastructure provision and maintenance.

Recent studies on the adequacy of infrastructure funding reported in the 2000-01 Local Government National Report show annual shortfalls of \$233 million in Victoria and \$105 million in South Australia. These figures do not account for requirements for additional infrastructure to cater for population growth and needs for improved services. Nor do they fully reflect the rising costs of maintenance and renewal associated with the ageing of large amounts of infrastructure provided during the 1950s and 1960s that is now reaching the end of its useful life.

This has important implications for the Commonwealth. As the introduction of the 'Roads to Recovery' program shows, the Commonwealth will inevitably come under increasing pressure to fill the infrastructure funding gap. Local government's declining share of public sector revenues and expenditure simply means that it is doing less than it should or could, transferring the burden to others or leaving important tasks undone at the nation's long term cost.

Another dimension of the infrastructure funding issues is a growing reluctance amongst councils to approve the raising of loans. In recent years many councils - although only a minority in southern Sydney - have become 'debt free', with cash assets exceeding outstanding loans. This trend reflects the political message received from Commonwealth and State governments that debt reduction should be a central goal. In the process, many have lost sight of the fact that loan funding is a proper way to finance infrastructure and ensure intergenerational equity, provided of course that recurrent revenues are sufficient to make repayments. Recent suggestions by the Treasurer that the proceeds of any further sale of Telstra should be used primarily to retire debt have reinforced this unhelpful perception that debt reduction should take precedence over providing essential services and infrastructure.

3.2 Local Government Revenue

Table 5 shows some of the marked shifts that have occurred in local government's sources of revenue. These may be summarised as:

- A very substantial decline in the share of revenue derived from local government's main source of income - property rates
- A corresponding increase in reliance on user charges
- A significant increase in Commonwealth funding since the advent of Financial Assistance Grants (FAGs) in 1974-5 (offsetting a relative decline in Commonwealth support over the previous decade)
- A relative decline in State funding since the introduction of FAGs - roughly offsetting the increase in Commonwealth support.

In 1997-98 NSW local government had the second highest share of revenue derived from rates - about 50%. It also had the second lowest proportion contributed by State grants - only 4%.

Table 6 - Local Government Sources of Revenue

	Rates	User Charges	Other	Federal Transfers	State Transfers*
1961/2	60.3%	16.1%	6.8%	10.9%	6.0%
1973/4	59.3%	15.7%	7.9%	8.0%	9.0%
1997/8	47.2%	24.7%	8.8%	12.1%	7.1%
Average Annual Growth	3.4%	5.3%	4.6%	4.4%	4.6%

*Includes some federal grants paid through the States

Source: Commonwealth Grants Commission

A continuing problem for local government is its lack of a 'growth tax' that reflects improvements in the economy. Councils are under constant pressure to minimise increases in rates, not just because of the general perception that taxes are too high, but specifically because rates are a tax on wealth - on the value of property assets - rather than household income or expenditure. This means that there tends to be a 'lowest common denominator' effect: rate increases must be limited so as not to disadvantage those with limited ability to pay, such as low-income pensioners or farmers facing hard times, rather than reflecting the full value of the property they own.

In NSW this situation is aggravated by the rate-pegging rules that limit the overall increase in revenue from year to year irrespective of increasing property values. Local government in Sydney is not allowed to share in the returns of property booms - unlike the State Government which earns vast revenues from stamp duty on property sales.

At the same time, however, local government is expected - and legally required - to grant rate rebates to pensioners, and is not allowed to charge rates on a wide range of Commonwealth, State and other properties, or on some government and privately-owned commercial assets such as electricity and telecommunications facilities and transmission cables.

Another concern of NSW councils is the State Government's complete refusal to share with them its National Competition Policy (NCP) payments - now running at some \$250 million per annum. The 1995 NCP agreements specifically included local government in the scope of their reforms, but the Commonwealth did not grant local government a share of the payments. Instead, local government only received a 'guarantee' that FAGs would be increased each year in real per capita terms.

In Queensland, and to a much lesser extent Western Australia and Victoria, the States have agreed to share competition payments with local government, recognising the contribution that competition and efficiency reforms by councils have made to economic growth and hence taxation revenues. Local government in NSW has undertaken similar reforms and generated similar economic benefits, but without recompense.

3.3 Financial Assistance Grants

Table 6 summarises payments of federal Financial Assistance Grants (FAGs) to Australian, NSW and SSROC councils in 2000-01. Overall, FAGs constituted about 8% of local government revenues.

Table 7 - Payment of FAGs 2000-01

	General Purpose Grant		Local Roads Grant		Total Grant	
	\$million	\$per capita	\$million	\$ per capita	\$ million	\$ per capita
Australia	919.8	48.29	408.1	21.43	1,327.9	69.72
NSW	310.7	48.29	118.4	18.41	429.1	66.70
SSROC councils	19.9	19.66	5.0	4.91	24.9	24.57

Source: 2000-01 National Report

In NSW, about two-thirds of total FAGs payments are allocated to rural and regional councils. For many smaller councils, FAGs provide over 30% of total revenue. This is consistent with the requirement for the Local Government Grants Commission to distribute FAGs on the basis of horizontal equalisation principles, but it also means that this very large item of Commonwealth expenditure makes relatively little contribution to meeting the needs of the majority of the population in metropolitan areas.

For SSROC councils, FAGs represent only 4% of total revenues - a valuable contribution but one that needs to be supplemented by other forms of federal assistance if key issues of infrastructure, environmental quality, economic development and community needs are to be met. Five SSROC councils receive only the minimum general-purpose grant, and a sixth barely more than the minimum.

As noted in section 3.2, local government still lacks a growth tax. Whilst FAGs are increased each year in real per capita terms (except in 1997-98 when the per capita component was withheld), this is a lower rate of increase than that of the GST which has replaced State FAGs. Last year, GST revenues grew by 7.1%, but FAGs by only 4.4%. Over the next two years, GST revenue is projected to grow by around 5.5% per annum. Moreover, the 'real' increase in FAGs is limited to the CPI less an adjustment for recent changes to indirect taxation - a figure well below the cost increases faced by local government.

3.4 Specific Purpose Grants

Specific purpose grants continue to play an important role alongside FAGs. In 2000-01 NSW councils received around \$30 million directly from the Commonwealth, plus considerably more through joint Commonwealth-State programs such as the Natural Heritage Trust. Currently, the Roads to Recovery program is adding very substantially to those amounts.

As noted previously, State grants to local government have declined in importance since the introduction of FAGs. State general-purpose assistance was withdrawn altogether in the early 1980s.

A sensitive issue for discussion in the immediate future is the Minister for Transport's proposal to re-package roads and transport funding under 'AusLink'. Given the importance of both Commonwealth and State grants to local government in this area, current shortfalls in road maintenance, as well as the key role councils play in maintaining State roads under contract, it is essential that there be no adverse financial impacts. At the same time, local government through ALGA has supported a more strategic approach to roads and transport planning, and several SSROC councils have been at the forefront of initiatives in this regard. They recognise the need to consider transport *systems* across regions and allocate resources in the appropriate mix.

PART 4. IMPACT OF CHANGING RESPONSIBILITIES

4.1 Types of Change

Changes in local government's powers, functions and responsibilities over the past few decades have occurred in response to a wide range of factors, resulting in different types of change with differing impacts and implications. Table 7 suggests a number of categories that apply in NSW. Most involve cost-shifting to a greater or lesser extent, in some cases by the Commonwealth (eg requirements of Disability Discrimination Act).

Table 8 - Typology of Changes in Local Government Responsibilities

Type	Example	Issues/Comments
Voluntary additional function: primarily response to community demand	Some community services and environmental programs, community safety, transport	May be impacted by limitations on revenue base
Induced: additional function in response to local community demand and significant State/Commonwealth support	Local economic development, some environmental programs, child care, services for the aged	Concern that support will diminish once function entrenched and community expects its continuation - then becomes 'gap-filling'
Gap-filling: additional/expanded function to offset reduction in State/Commonwealth or private sector support	Public libraries, various community services	Councils are increasingly called upon to fill gaps when State or Commonwealth grants are reduced or withdrawn
Funded Mandate: additional function legislated by State/Commonwealth with reasonable resourcing or revenue base provided	Stormwater management, pollution control, building and development control	See 'induced'
Unfunded Mandate: additional function legislated without adequate provision of resources or revenue base	Disability access, land use planning, pensioner rate rebates, Companion Animals, other regulatory functions	
Levies: requirement to provide funding for State government service	Fire brigade, waste disposal, Crown land leases, parking	Major area of increased costs. Directly reduces local government's capacity to fund its own activities
Accountability: usually legislative requirement for additional governance or administrative procedures	Corporate planning, community plans, State of Environment reports, Plans of Management for public land	Substantial burden on smaller rural councils - level of sophistication required may be unnecessary. Planning tends to generate community expectations of enhanced services.
Resumed: function and associated revenue taken over by State government	Electricity distribution	Loss of revenue and community assets. Some water/sewerage undertakings seen to be at risk of further takeovers.

CASE STUDY: LIBRARY SERVICES

Library services provide an excellent example of local government being required to fill a gap left by declining State government support. The table below shows changes in funding of NSW public libraries over the past two decades.

Year	State Government		Local Government	
	Total \$	Per Capita	Total \$	Per Capita
1980	8.48	2.20	27.52 m	7.11
2000	17.92	3.07	185.98 m	31.82

Had the State government maintained its 1980 share of total costs (23.6%), it would now be contributing about \$48 million rather than only \$18million. In other words, \$30 million in costs has been shifted to local government.

The NSW government spends considerably less than Queensland and Victoria in both absolute and per capita terms. For 2000-01, total State expenditure was \$24.2 million in Victoria (\$5.07 per capita) and \$30.3 million in Queensland (\$5.69 per capita).

This shortfall in State funding means increasing unmet needs for a critically important community service. These needs include expansion of services in rural and regional areas, extended opening hours, expanded electronic resources and internet access, upgrading of reference collections, local studies and archive collections, and special services for groups such as young people, students (also hit by reduced library services due to cuts in Commonwealth university funding), the elderly and Indigenous peoples.

4.2 Other Cost Increases

In addition to new areas of activity and reduced Commonwealth or State support, local government incurs increased costs as a result of flow-on effects of State and Commonwealth policies or projects. For example:

- SSROC councils are experiencing increased demands for provision or upgrading of infrastructure and other services as a consequence of urban consolidation policies
- SSROC councils have also been impacted by additional traffic on local roads as a result of major freeway projects
- Councils have to expend very large amounts of staff time and money as advocates for their communities in response to Commonwealth or State proposals.

Local government may also be impacted adversely by the policies of State business enterprises - often driven by the need to increase returns to consolidated revenue. For example, councils in southern Sydney have experienced dramatically reduced service levels

from some State utilities, with no consultation or reduction to the fee charged. A case in point are street lighting costs charged by Energy Australia (see below).

CASE STUDY: STREET LIGHTING

A recent review of street lighting initiated by SSROC has revealed:

- Street lighting assets are currently owned by EnergyAustralia (a State government-owned corporation) and most of these were originally funded by EnergyAustralia. However, under current EnergyAustralia policy, councils or third parties must now fund new street lighting extensions, with ownership typically transferred to EnergyAustralia upon construction.
- If councils elect, or are obliged to retain ownership of new installations, they face ongoing charges that are significantly higher than those for street lighting that is directly connected to EnergyAustralia's network.
- EnergyAustralia is perpetuating technologies that have been discontinued in other Australian and overseas jurisdictions for some years.
- There is no effective contestability for street lighting services, given that:
 - 1) EnergyAustralia owns the great majority of street lighting assets;
 - 2) there are not relevant service standard requirements for EnergyAustralia-owned street lighting services; and
 - 3) EnergyAustralia imposes higher charges on street lighting assets owned by councils or third parties.
- Over the past few years, councils have faced unilateral changes in charges and service levels (eg. discontinuation of night patrols and lengthened outage response times) with no reduction to the fee charged and no warning that the service is to be discontinued.

Energy Australia is reluctant to negotiate formal service agreements nor are there regulated services standards that define the relationship between the parties. As street lighting services are not contestable, councils are at the mercy of the asset owner and service provider with no effective safeguards. This is in direct contrast with Victoria, where councils have the benefit of the Victorian Public Lighting Code, which addresses critical issues such as service standards for street lighting services, as well as a system of service agreements between Distribution Network Service Providers and councils.

4.3 Levies and Limits to Revenue

Increasing responsibilities have also been accompanied by limitation of local government's capacity to raise revenue and imposition of levies on councils to fund State services. Coupled with resumption of profitable electricity distribution, these imposts have directly reduced local government's discretionary revenue.

The largest levies are those for the metropolitan fire brigade (see case study below) and waste disposal. Others include new levies on parking spaces in inner city areas and on the issue of leases on Crown land managed by councils.

In considering these levies, the Committee should note that they are in part a consequence of the State government's own financial difficulties, which in turn reflect the broader framework of federal-State financial relations. As indicated in Table 4, the States are much more dependent on federal support (now provided in part through the GST) than is local government. Given the continuing weakness of its own revenue base, including a number of inefficient and unpopular taxes, it is perhaps not surprising that the NSW government has sought to tap property taxes to fund some of its services. It should also be noted, however, that a large proportion of waste disposal levies is retained as consolidated revenue rather than being channelled into the functions for which the levies are supposedly collected.

Other significant limits on council revenue raising include:

- Rate pegging (discussed in detail below)
- Restrictions on specific fees and charges (eg for development applications - see case study)
- Restrictions on 'section 94' (developer) contributions - charges for additional infrastructure, facilities and open space made necessary by new developments.

CASE STUDY: FIRE BRIGADE LEVIES

SSROC councils are required to provide financial support to the metropolitan fire brigade through an annual levy based on land values. The levy does not reflect population, use of the service or any other measure of a council's capacity to pay.

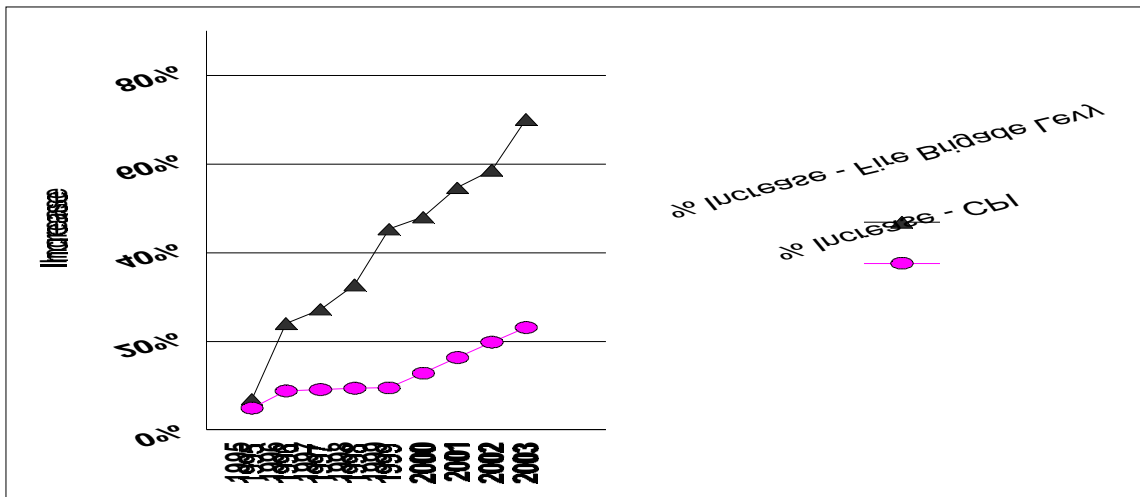
In 2000-01, SSROC councils paid \$9.2 million to the State government in fire brigade levies. This was 30% of the total metropolitan figure. It amounts to nearly half the general-purpose FAGs received from the Commonwealth.

Councils receive advice as to the levy payable very late in each financial year, and usually after their draft budgets have been publicly advertised. The rate of annual increases is highly variable and unpredictable. The table below shows the levies paid over the last five years by a cross section of SSROC councils.

Year	Marrickville \$000	Rockdale \$000	Sutherland Shire \$000	Waverley \$000	Woollahra \$000
1999	437	762	1,779	633	1,153
2000	451	783	1,806	694	1,277
2001	475	835	1,934	756	1,389
2002	501	868	2,057	790	1,438
2003	575	967	2,332		1,567

Average annual increases are typically around 9%; well above other cost increases and 2-3 times the rate-pegging limit set by the State government.

The graph below compares increases in the levy with the CPI for Rockdale City Council.



CASE STUDY: DEVELOPMENT APPLICATION FEES

Over recent years the NSW State government has attempted to deal with an increasingly complex range of issues through the development assessment process. The cost to councils of development assessment (DA) has increased significantly, whilst fees received, which are regulated by the State government, have stayed the same.

As the Independent Pricing and Regulatory Tribunal (IPART) has noted: “over-recovery (of processing costs) could tend to stifle development, while under-recovery could result in a reduced standard of assessment or in the community having to cross-subsidise assessment at the cost of reduced standards or quantities of other services.” Unfortunately the later scenario has prevailed. The current fee schedule is resulting in profound under-recovery of council costs.

Rockdale City Council, for example, has calculated the increased cost to council at around \$200,000 per annum, reflecting increased staff numbers, training costs and higher salaries paid to the better qualified staff needed to handle more complex processes.

PlanningNSW recently reviewed DA fees based on a 1999 IPART report. It argued that IPART was not able to access enough detailed information to make a realistic assessment of the cost of DA services, as council systems are not designed to capture this information. The resulting amendments to the regulations therefore did little to assist councils’ cost recovery. PlanningNSW did, however, recommend that councils should be allowed to set their own fees if they could provide enough data regarding the real costs.

SSROC has responded by undertaking a regional data-gathering project to capture the cost of the entire DA process, from pre-lodgement through to determination, and thereby present a case to the State Government on appropriate fees and charges for assessment services. This project is funded entirely by the councils, but PlanningNSW has become concerned about the unsustainable nature of councils’ development services and is working with SSROC. It has undertaken to vary the regulations to allow participating councils to set their own fees as a pilot for the rest of the State.

It is noteworthy that in Queensland councils are free to set their own fee levels.

4.4 Rate Pegging

Rate pegging has been the principal limitation on revenue for NSW councils, and is largely responsible for the slow growth in local government expenditures compared to those of the State. Under this system, introduced by the Wran Government in 1977 when government taxes and charges were increasing much more rapidly than today, councils are required to seek special approval from the Minister for Local Government for annual increases in total revenue beyond a specified level.

There are often 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. Also, there have been several examples of

local communities wanting their council to spend more for a particular purpose, notably environmental management.

In many instances the Minister has responded favourably to requests for revenue increases above rate-pegging limits – but not always, sometimes inconsistently (there have been marked differences in receptiveness from year to year), and often only after the Council concerned has had to devote substantial resources to making its case and has been subjected to intense scrutiny.

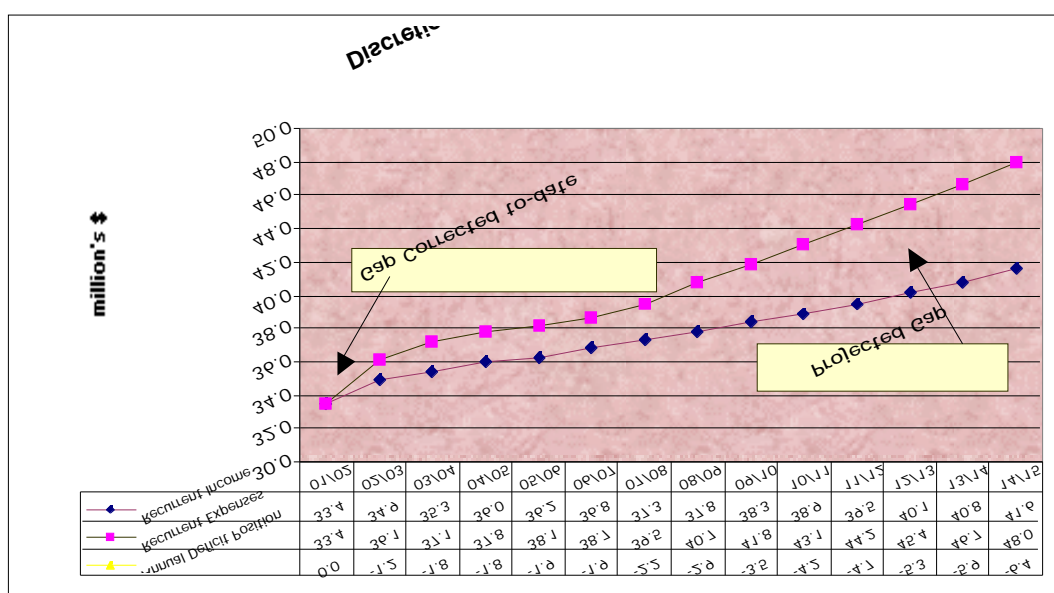
Moreover, there has been an evident tendency for rate-pegging limits to be set significantly below the level of cost increases facing councils, sometimes purely as an exercise in political points scoring.

The current basis for determining the recommended rate pegging limit is understood to include a CPI component and a component that reflects wage costs. As noted previously, the ‘basket of goods’ in the CPI is not typical of the ‘basket of goods’ acquired by local government. In recent years, the methodology appears to have regularly understated the cost movements affecting local government. Nor does it account adequately for special cost pressures of a one-off nature: recent examples include Y2K preparations and GST implementation costs.

The graph below shows the projected increasing gap between income (subject to estimated rate pegging) and expenditure for Rockdale City Council.

Most seriously, there does not appear to have been any attempt to determine the impact of rate pegging on infrastructure provision and maintenance (see below).

Another concern is the lack of transparency. At no stage is there any formal consultation with local government, independent expert bodies or the public. Nor is there a requirement for the Minister or State Government to explain publicly how the determination was reached. This contrasts with the use of the Independent Pricing and Regulatory Tribunal (IPART) to make recommendations on changes to government regulated prices.



4.5 Impacts

The broad impact of these changes was outlined in sections 2.3 and 3.1. Local government has had to reduce the share of expenditure allocated to infrastructure in order to finance other new or expanded activities and offset limits to revenue. The result is a serious decline in the adequacy of infrastructure maintenance and local government's capacity to provide essential new infrastructure. This will have wider adverse economic effects if allowed to continue.

Presented below is a case study contributed by Rockdale City Council, which provides a typical example of the cumulative cost pressures faced by SSROC member councils and how these impact heavily on infrastructure maintenance.

CASE STUDY: IMPACT ON INFRASTRUCTURE FUNDING

Rockdale City recently undertook a detailed financial analysis to support an application for a special rate increase above the rate-pegging limit.

Council found that expenditure on infrastructure maintenance - that is, without creating any new assets - was some \$2.2 million per annum less than necessary to maintain existing standards of service. This shortfall is equivalent to about 10% of the council's annual rate revenues.

At the same time, council estimates the following average annual costs over recent years associated with major changes to its responsibilities or revenue limits imposed by State and Commonwealth governments (figures rounded):

Superannuation Guarantee	\$ 520,000
Rate pegging	\$ 430,000
Planning controls and other increased regulatory responsibilities	\$ 240,000
Fire brigade levy	\$ 360,000
Additional accountability/reporting/planning requirements	<u>\$ 150,000</u>
TOTAL	\$1,700,000

To these costs can be added approximately \$550,000 per annum in increased insurance premiums, plus the proportion of the State government's waste disposal levy paid directly to consolidated revenue. It thus becomes very clear why infrastructure maintenance has suffered.

PART 5. THE CAPACITY OF LOCAL GOVERNMENT

5.1 Forces at Work

The capacity of local government to meet existing obligations and to take on an enhanced role is a function of several factors. These include:

- The constraints and opportunities provided by legislation - predominantly but by no means exclusively a matter for the States
- The broader framework of intergovernment relations within which it operates
- Its financial status and the degree of support provided by other governments - including the Commonwealth through the FAGs system and a range of specific purpose grants - as well as any limitations they impose
- The quality of its management
- The vision and understanding of those leading local government as to the kind of role to which it could and should aspire.

A number of these factors have already been addressed to some extent. In particular, Part 2 pointed to the broad scope for local government activities now provided under the NSW Local Government Act (and those of all other States), as well as the many specific obligations set by the Local Government Act and a wide range of other legislation. This legislative framework operates in two ways:

- On the one hand, it gives local government the potential to play a broader role
- On the other, it tends to burden councils with a very demanding set of 'routine' functions, and - especially amongst smaller councils - thus to reduce their discretionary capacity to experiment and innovate.

This is, of course, linked directly to the financial constraints discussed in Parts 3 and 4. The combination of rate-pegging and State levies in NSW is certainly inhibiting the desire and capacity of local government to expand its role. Fears that specific-purpose grants for new activities will be withdrawn at some future date, leaving councils 'holding the baby', have a similar effect. Nor should the impact of 'small government' and debt reduction rhetoric on the part of both State and Commonwealth governments be under-estimated: many Councillors have been persuaded that their primary objectives should be low or lower rates and repayment of any loans, with no new borrowings. This approach all but rules out significant enhancement of local government's role.

The quality of local government management has received close attention over recent years. Through education and training programs, merit selection, and by removing requirements for specialist qualifications and attracting people from outside the system, local government has achieved considerable improvements in the quality of its personnel. At the same time, Local Government Acts have introduced new requirements for strategic and corporate planning, management and accountability that have brought about fundamental changes in the way councils do business. Application of accrual accounting and National Competition Policy principles have also been powerful forces for change and improvement.

5.2 Options and Opportunities

Broadly speaking, there are two strands to the discussion about local government's future role:

- Its capacity, efficiency and effectiveness in service delivery
- The scope for it to become a more complete sphere of government.

Much of the debate about local government reform in Australia over the past two decades has been fuelled by demands that councils become more efficient and hence lower cost, service deliverers. These demands have been linked to the broader push for micro-economic reform in the public sector, seen as essential to make Australia more competitive in a globalising world.

But as a number of writers have pointed out, local government is about much more than just providing services. It is an important democratic institution with a very broad role in representing and meeting the needs of its constituents, as well as managing the environment in which they live, work and play.

Moreover, local government must be seen as an integral part of Australia's overall system of government. Councils have responsibilities which complement and often overlap with those of the states and the federal government. If communities are to be governed properly, and environments managed effectively, then there need to be sound relationships between spheres of government and adequate mechanisms to facilitate cooperation and coordination wherever appropriate. This aspect is discussed in Part 7 of this submission.

In NSW, the Council's Charter contained in the Local Government Act certainly highlights the importance of service delivery but it also calls for community leadership, for community participation, for responsiveness to diverse needs and cultures, for sound environmental management and for a longer term perspective. This goes well beyond the micro-economic reform agenda and suggests that a much broader range of factors need to be considered in reaching conclusions about appropriate arrangements for local government into the future.

Communities are complex and diverse and expectations of local government vary considerably from place to place and time to time. The SSROC region is one of particular complexity and rapid change. Councils need to understand the differing needs and expectations of the various interest groups and local communities that make up both individual local government areas and the region as a whole.

Research has confirmed an increasing focus on the quality of community life, and a widespread view that governments need to do more to address concerns about loss of community cohesion, fears about personal safety, threats to environmental quality, and a general sense of unease and alienation apparently brought about by rapid economic and institutional change.

Community concerns about environmental amenity and pressures for what many see as over-development in metropolitan areas were highlighted in the 1999 NSW Local Government elections. There is a sense that councils should act to protect their communities from unwanted environmental change, and should also do more to offset the perceived adverse impacts of economic and social change.

Such community agendas tend to promote a still wider role for local government and lead councils into some areas of activity, for example crime prevention, seen previously as the domain of state and federal governments. Again, they are often at odds with pressures from other quarters for Councils to concentrate on more narrowly defined 'core business', and limiting rates and charges.

In a 1999 paper *Future Directions and Action Plan*, the Local Government Branch of the Victorian Department of Infrastructure suggested nine criteria to assess whether councils could be regarded as contemporary and effective. It argued that councils should:

- *Demonstrate an awareness and sensitivity to local democracy through effective consultation, provision of information and open decision-making*
- *Seek continuous improvement for all their services based on analysis of performance, facts and community aspirations*
- *Perform as world class, customer driven organisations with an orientation to service*
- *Advocate effectively for social justice, economic growth and the aspirations of their communities*
- *Provide quality services to meet community requirements and ensure best value for money through best practice means*
- *Encourage and support appropriate economic development*
- *Ensure through prudent financial management their continued viability*
- *Fund and maintain a sustainable infrastructure through strategic forward financial planning*
- *Engage in regional cooperation to facilitate interaction between Councils and with government agencies.*

These criteria suggest an agenda for the future of local government that the Commonwealth should support. Unless local government is enabled and assisted to meet the challenges it faces, the federation and Australia's local and regional communities will be the poorer. With its established administrative capacity across nearly the whole country, its professional resources, and its area-basis geographical, local government can add a vital dimension to the federal system, facilitating a strategic 'whole of government' focus on places and communities.

Accordingly, the Commonwealth needs to work with State and local governments to:

- **Articulate an agreed vision for local government's future role and place in the federal system**
- **Ensure adequate financial assistance for councils and removal of unwarranted financial constraints**
- **Provide political support for councils to implement sound financial management, including increased rates and charges and loan raising where appropriate.**

5.3 A Local Government Program

Until recently, the Commonwealth did pursue an agenda for reform, continuous improvement and innovation in local government through the Local Government Development Program and subsequently the Local Government Incentive Program.

Whilst local councils can and do receive federal government support under a wide range of programs in addition to FAGs, the lack of a substantial program targeted specifically at systemic reform and improvement is a major gap. On the other hand, it is probably fair to say that the funding of a scattering of often unconnected projects that occurred under the former programs was not particularly effective in advancing the capacity of local government overall - although funded projects often made a real impact at the local or regional level.

In the United Kingdom the central government funds an Improvement and Development Agency (IDeA) for local government. This provides a national resource to formulate and disseminate new ideas and leading practice. It works cooperatively with the Local Government Association and university centres for local government training and research.

Whilst it can be argued that in Australia this should be a State responsibility, in reality individual States lack the resources to support an adequate agency along these lines, and funds would be wasted in duplicating efforts when the core issues are essentially the same throughout Australia.

The Commonwealth should reinstate some form of local government capacity building program, and consider options for an organisation along the lines of the UK Improvement and Development Agency.

PART 6. OPPORTUNITIES AT A REGIONAL LEVEL

6.1 Engaging Metropolitan Regions

Commonwealth governments of both political persuasions have supported various forms of regional cooperation and development initiatives for many years. Although the present government initially scaled down its involvement in regional development, the past few years have witnessed very strong growth in this area of activity, particularly focussed on the needs of rural and remote regions. In the last budget, some funding was also provided for projects in outer metropolitan regions: Campbelltown-Camden in south-west Sydney and Salisbury-Playford in northern Adelaide.

SSROC strongly endorses this recognition of the need for additional Commonwealth involvement in metropolitan Australia in order to address socio-economic, environmental and infrastructure needs. In the case of Sydney, and especially the SSROC region, many of the issues relate to Commonwealth policies on economic restructuring, immigration, airports etc. Moreover, as provision of Commonwealth funding support for major transport and infrastructure projects, urban environmental management and other metropolitan needs indicates, some of these issues are simply beyond the financial capacity of State and local governments.

The Commonwealth should therefore review its existing regional and related programs with a view to re-engaging more broadly with the management of metropolitan regions, in cooperation with state and local governments.

6.2 Regional Cooperation in Local Government

Regional cooperation amongst councils is a proven valuable means of enhancing the capacity of local government in a number of areas:

- Strategic planning
- Intergovernment relations
- Service delivery.

The value of cooperative strategic planning at a regional level, including the potential role of regional organisations of councils, is discussed in Part 7. This is an area of activity that the Commonwealth should support more energetically, if only to advance its own interests. To a limited extent, this has already been recognised in arrangements for the Natural Heritage Trust. It could be applied to great advantage in metropolitan regions, as indicated above. SSROC sought to promote cooperative strategic planning through its recent Botany Bay project, funded through the NHT

Cooperative strategic planning is also an essential element of effective intergovernment relations, providing a means to clarify issues of common concern and determine the best means and allocation of responsibilities to address those issues. This is also covered in Part 7.

Cooperation amongst councils to facilitate better service delivery is widespread, although not always on the basis of formally adopted regions. In the case of SSROC, cooperation between member councils has covered the following areas of activity:

- Regional policy development
- Facilitation of joint activities between councils
- Regional advocacy
- Capacity building
- Establishment of strategic partnerships
- Community development.

There is little doubt that amongst smaller rural and regional councils, cooperative service delivery is sometimes essential to capture economies of scale and facilitate provision of some 'higher order' services that could not otherwise be provided. In NSW there is still a legislated system of County Councils that is used to varying degrees in different parts of the State for functions such as noxious weeds control, flood mitigation, and water supply and sewerage. County Councils were previously used also for electricity distribution, but these were disbanded and their assets resumed by the State government some years ago.

Also there has been a tendency for local government-based regional groupings to be by-passed in favour of State-appointed regional committees and boards - for example for economic development, catchment and river management, vegetation protection etc. And in NSW regional planning tends to be more of a 'top-down', State directed process than a cooperative venture with local government. This contrasts with the picture in some other States, notably Queensland (see Part 7).

This tendency to State domination can undermine enthusiasm for regional cooperation within local government, and may thus reduce the benefits that might otherwise be realised.

When pursuing regional initiatives, both State and Commonwealth agencies should as a general rule work with bodies such as regional organisations of councils or other established arrangements within local government. This would build on existing strengths and over time generate the capacity for local government to undertake a broader range of functions on a regional basis.

The Commonwealth can foster this process, and thus create more opportunities to engage local government in promoting its own agendas, by:

- **providing increased support for regional organisations of councils or their equivalents through its regional programs**
- **initiating some pilot projects to explore options for expanding the delivery of selected programs through local government on a regional basis - for example, the NHT .**

PART 7. SCOPE FOR RATIONALISATION

7.1 Some History

In the late 1980s the then federal government supported a 'Rationalisation Exercise' to explore options for the potential rationalisation of a range of program functions amongst the three spheres of government. This continued for three years and included a number of studies and demonstration projects. However, there was little cooperation from the States and it became apparent that some of the Commonwealth agencies involved were also less than enthusiastic.

Following completion of the exercise, the Australian Local Government Association (ALGA) published a report 'Better Services for Local Communities' that summarised the experience gained and re-emphasised the need to reform, rationalise and coordinate the delivery of services at the local level, so as to improve their quality and make better use of the resources available.

'Better Services for Local Communities' identified several fundamental problems in local government's relations with the Commonwealth and States, impacting on the delivery of services. These included:

- limited recognition of local government as an integral part of Australia's federal system (referring to practical rather than constitutional matters)
- vertical fiscal imbalance and inequitable financial arrangements
- lack of clarity in delineation of roles and responsibilities
- ineffective mechanisms for cooperation and coordination
- complex administrative arrangements for programs that do not reflect the particular circumstances and *composite needs of different* local communities.

The Rationalisation Exercise had shown that trying to negotiate significant changes to the roles and responsibilities of governments across the board was simply too hard (a point reinforced by various attempts under the Council of Australian Governments in the 1990s). What might succeed, however, were adjustments to program management at a local or regional level, based on a planning process that could engender a shared understanding of issues and priorities - and hence of which sphere of government and which agency could best take the lead in any given area of activity.

To address some of these issues, ALGA subsequently formulated the concept of 'Integrated Local Area Planning' (ILAP), promoted jointly with the federal government in the mid 1990s. This advocated that local councils should take the lead in promoting cooperative strategic planning for their areas, seeking to bring together the relevant government agencies and other key stakeholders to identify and then address priority issues.

ILAP as such did not become an enduring feature of local government or intergovernment relations. This reflected limitations in the way it was put together and communicated; a misunderstanding that it was just a new name for strategic *land use* planning; and once again

lack of support from many central government agencies real cooperation and coordination in their relationships with local government.

However, since the early 1990s there has been a steady growth of interest in integrated strategic planning, 'whole of government' approaches, and 'place management' - in short, taking a broad, holistic view of the needs of different local and regional areas. This has been accompanied and strongly reinforced by the growing emphasis on tackling the problems of regional Australia, where the need for *packages* of initiatives to address complex issues is now widely recognised - for example, in the federal budget papers.

7.2 Cooperative Planning

As noted above, a central tenet of ILAP was that rationalisation of roles and responsibilities requires an effective cooperative planning process to determine precisely what needs to be done and who is best placed to do it - or lead the charge.

Some excellent examples of this process at work can be found in Queensland, notably in planning for future urban growth in South East Queensland (the 'SEQ 2001' process), but also in regional planning for other parts of the State, such as the Far North.

In Queensland, local government enjoys a more equal and productive relationship with the State than in NSW. This reflects amongst other things the more decentralised population pattern and hence relative importance of regional centres; local government's greater level of responsibility for major infrastructure expenditures, particularly water supply and sewerage, as well as for land use planning; and the special place in the system of Brisbane City Council as a quasi-metropolitan government with very considerable resources and political status.

Strategic planning processes reflect this relationship. Importantly, they rely on cooperation rather than imposed statutory requirements. Typically, they are overseen by high level steering committees of State and local government, involve joint working teams, and are concluded by formal agreements between the two spheres of government on implementation roles and responsibilities. None of this is to exclude other stakeholders, but the process does appear to recognise the fundamental importance of working through the State-local relationship.

In the case of South East Queensland there has been an attempt to involve the Commonwealth as well. This dates back to earlier initiatives in the 1980s and 1990s.

Regional organisations of councils play a key role. SEQROC - the South East Queensland Regional Organisation of Councils - has developed over the past decade or so into a very influential grouping with a substantial capacity to negotiate with the State government and contribute positively to planning processes and policy making.

7.3 Protocols and Partnership Agreements

Planning processes can be complemented by protocols and partnership agreements between governments that take further steps towards rationalisation of roles and responsibilities, and better service delivery.

As indicated above, regional planning processes in Queensland typically culminate in a formal implementation agreement. An early example of this was the Trinity Inlet Management Program involving the State government, Cairns Port Authority, Cairns City and Mulgrave Shire. This set out a detailed action plan and allocation of responsibilities for management of a sensitive estuarine waterway and adjoining lands.

On a broader scale, Queensland has also seen the negotiation of a number of state-local government protocols covering various elements of the working relationship between the two spheres of government, and focussing on specific areas of shared responsibility, such as urban planning.

A recurrent feature of the Queensland approach is that of direct negotiation and ongoing working relationships at a political level. Agreements are signed by the Premier and/or relevant Ministers together with the Mayors of the councils involved or, in the case of state-wide agreements, the President of the Local Government Association. Implementation of plans is overseen by high-level committees of Ministers and Mayors who meet regularly to discuss progress.

A somewhat similar approach is now being followed in Tasmania. This involves the negotiation of partnership agreements between state and local governments, either on a state-wide basis (with the Local Government Association), or with regional groups of councils, or with individual municipalities. These agreements are very flexible, and can cover a wide range of issues of mutual concern, facilitating cooperation in both planning and service delivery. Their stated purpose is to 'facilitate the role of local government in a strategic way which will, in turn, drive their local economies and communities', and to provide 'an opportunity to examine service delivery arrangements and jointly identify measures to improve their design and/or delivery'.

Agreements are intended to focus on a manageable number of key issues where real progress can be made, and are resolved ultimately at political level following scoping and initial negotiation by teams of state agency and council officials.

Six principles apply to agreements:

- Improved cooperation between state and local government based on shared identification of objectives and ways of meeting those objectives
- Within a partnering framework, the state to retain responsibility for services requiring uniform standards or consistency, and for state-wide economic and social issues
- Changes in responsibilities should achieve overall efficiency and effectiveness across both spheres of government
- Where services are more effectively and efficiently delivered at the local level, agreement will be reached on appropriate funding arrangements
- Any amendment of existing service delivery arrangements will be the subject of contractual arrangements to ensure accountability and transparency
- Results should be measurable through agreed performance indicators.

Importantly, a special unit within the Department of Premier and Cabinet (which also has responsibility for local government) handles coordination of negotiations at state level. Both state and local government representatives report favourably on progress to date, with

several agreements already signed and other negotiations proceeding well. It is particularly interesting to note that the very process of negotiating an agreement is seen as valuable in focussing attention on key issues; promoting improved coordination amongst the state agencies involved, as well as between councils in the case of regional agreements; and fostering more careful consideration of priorities and sometimes improved management performance within councils.

7.4 Moving Forward

The Queensland and Tasmanian experience is not unique. There are a substantial number of examples of cooperative planning processes and State-local agreements being negotiated at various times in other States, notably South Australia. However, these advances in intergovernment relationships tend to ebb and flow. In NSW, protocols have been negotiated in a few specific program areas, but there has never been a broad agreement on State-local relations.

At the federal level, an 'Accord' between the then government and ALGA was negotiated in 1995 as a basis for ongoing cooperation across several program areas, but this was abandoned soon after the change of government in 1996. However, there has been ongoing support for local government participation in COAG and an increasing number of Ministerial Councils. This provides a basis for further moves forward.

The Commonwealth has a real interest in ensuring that local government is an effective partner in the federal system and that wherever necessary the roles and responsibilities of the three spheres are better aligned. There are three key factors here:

- The Commonwealth's heavy financial commitment to local government through the FAGs system (see Part 9)
- Existing extensive arrangements for program delivery involving local government, and the economic imperative of ensuring that limited funds are used as efficiently and effectively as possible
- The potential for additional ongoing costs to the Commonwealth if issues such as infrastructure maintenance and renewal are not adequately addressed by local and State governments
- The particular importance of local government's role in regional and rural Australia.

To advance both its interests and the system of government, the Commonwealth should take the following steps:

- **Initiate discussions through the Local Government Ministers Council and subsequently COAG in order to**
 - **formulate a broad agreement on the role of local government in the federal system**
 - **consider various models for cooperative planning and partnership agreements, also including Commonwealth agencies**

- **review the impact of existing financial arrangements on the capacity of local government to play an enhanced role, and hence the capacity of the public sector as a whole to provide quality services to local communities**
 - **specifically consider action required to address shortfalls in infrastructure maintenance and renewal.**
- **Emphasise the potential contribution of local government in its various regional programs, with a stronger focus on cooperative planning amongst the three spheres of government and subsequent delineation of roles and responsibilities for implementation.**

PART 8. COMMONWEALTH GRANTS COMMISSION REVIEW

8.1 Principal Findings and Recommendations

The principal findings and recommendations of the 2001 Review of the Local Government (Financial Assistance) Act may be summarised as follows:

- The system of financial Assistance Grants and State/Territory Local Government Grants Commissions should continue in essentially its present form
- Local government has maintained its revenue-raising effort (albeit at slower rate of increase than federal and States) since the introduction of FAGs
- Commonwealth assistance to local government through FAGs has been offset by slower growth or even a decline in State grants
- In future, FAGs should be divided into three pools - per capita, relative needs, and local roads - with transitional arrangements to cushion any impacts on individual councils
- FAGs should be allocated on the basis of 'relative needs based on equalisation principles' rather than 'horizontal equalisation' - this could provide more flexibility and reflects more accurately what can be achieved with the level of funds available
- The current **purpose** relating to Aboriginal and Torres Strait Islander peoples should be removed, but the **principle** concerning provision of services to Indigenous **people** (not geographically defined communities) should be strengthened
- State Local Government Grants Commissions should be required to implement the National Principles more consistently in accordance with Act's intentions in the way they distribute grants amongst councils
- The monitoring role of the annual Local Government National Report should be enhanced, particularly in relation to the methods of the different Local Government Grants Commissions and application of the ATSI principle
- The system of 'declared local government bodies' should be retained, but both federal and State Ministers should agree before such bodies are declared or removed.

SSROC endorses most of these findings and recommendations, subject to the comments below.

8.2 Overall Level of Funding

The Commission was precluded from considering the both the quantum and inter-state distribution of grants. It did note, however, that the current level of funds provided was insufficient to achieve effective 'horizontal equalisation' in terms of the current legislation.

FAGs were introduced to help make local government a more equal - and presumably valuable - partner in the federal system of government. They have been maintained by governments of both the major parties, and reflect a recognition that Commonwealth involvement - albeit at arm's length - is desirable to ensure that all Australians can enjoy an adequate standard of local services delivered through local government.

Yet over the past decade or more the level of FAGs as a percentage of total federal taxation has steadily declined. The Australian Local Government Association has documented this decline. And as noted in sections 3.2 and 3.3, local government was not given NCP payments and FAGs are increasing more slowly than the GST revenue allocated to the States.

Against this background, SSROC is concerned that the Commission's proposal to move from 'horizontal equalisation' to 'relative needs based on equalisation principles' would further reduce pressure on the Commonwealth to consider whether the overall level of FAGs is sufficient for the purposes for which the system was originally established.

A related issue is the current arrangement whereby the Treasurer can adjust the annual total of FAGs away from the figure calculated under the 'real terms per capita' growth formula. Whilst the Treasurer has only exercised this discretion once in recent years, removing the per capita component of growth in 1997-98, it means that local government is less certain of its basic Commonwealth funding than are the States under the GST agreement.

SSROC believes that the annual growth formula for FAGs should be fixed, and the Treasurer's discretion removed, but subject to regular reviews of the legislation by the Commonwealth Grants Commission.

8.3 Inter-State Distribution

SSROC notes the concerns expressed in some other States from time to time regarding the current inter-State distribution of the general-purpose component of FAGs. This is a straight per capita allocation. It has been suggested that this component should be distributed using the equalisation formula applied to State grants (ie GST revenues).

This matter was addressed in the 2000-01 National Report, which showed that when both general-purpose and roads FAGs are combined, NSW local government receives only slightly more than the State's GST share. The ACT, Victoria and Western Australia fare better than NSW, whilst Queensland (marginally), South Australia, Tasmania and the Northern Territory would benefit from use of the GST formula.

As the Grants Commission report shows, the central problem with moving to an equalisation distribution between States for local government FAGs relates to the differences between systems of local government and their relationships to the States, as well as the complex effects of population, economic and geographic factors on councils' relative capacities. It seems highly doubtful that a satisfactory formula could be developed.

Options that might be further considered include:

- Reviewing the apparently very favourable treatment received by the ACT in terms of local roads grants, contrasting with the seemingly harsh treatment of South Australia
- Providing supplementary assistance to Aboriginal community councils (Declared Local Government bodies -see below) in the Northern Territory from another Commonwealth source.

SSROC believes that the current per capita distribution of general-purpose grants between States should continue.

8.4 Intra-State Distribution

The Commission's report raises some issues regarding the intra-State distribution of grants that also require careful consideration.

- As the Commission points out, the quantum of FAGs is insufficient to achieve true equalisation. Already, a very large proportion of total funding is being allocated to smaller rural councils, some of which depend on FAGs for around half of their total income. It is debatable whether this approach is sustainable into the long term: to what extent should FAGs be used to maintain units of local government that may be essentially unviable? Should FAGs bear such a large share of the burden of supporting services in rural Australia? What is the opportunity cost in terms of potential improvements to local government services in urban areas?
- The potential impacts on the intra-state distribution of grants of the proposed change in terminology to 'relative needs based on equalisation principles' are uncertain.
- Similarly, SSROC believes that more thought should be given to the possible consequences of the proposed 'three pool' system. Will the current allocation of 30% of funds to minimum per capita grants remain guaranteed by legislation? Councils need stability and certainty of funding into the medium term, and would want to be assured that any impacts of changes to terminology and pooling of funds have been thoroughly analysed and found to be within reasonable limits.

SSROC believes that the practical implications of the proposed changes to methodology for the intra-State distribution of grants need to be worked through in more detail before the legislation is changed.

8.5 Declared Local Government Bodies

The Commission took the view that the arrangements for 'Declared Local Government Bodies' are satisfactory, subject to the desirability of agreement between both the federal and the relevant State minister before such bodies are declared or revoked.

There are currently 40 Declared LGBs across Australia. Most of these are Aboriginal community councils in the Northern Territory and similar bodies in South Australia. In NSW there are three Declared LGBs - the Lord Howe Island Board, Silverton Village and Tibooburra Village. In Victoria the Docklands Authority is a Declared LGB.

SSROC takes the view that FAGs should be seen as supporting the system of democratic local government. Where another body is clearly acting in lieu of an elected council and is accepted in that role by the local community, it may be appropriate for it to become a Declared LGB. However, the current arrangements leave open the possibility that federal and State ministers could agree on the declaration of a wide range of authorities that are really commercial or administrative arms of the State.

In the SSROC region, for example, there are two such State authorities: the Sydney Harbour Foreshores Authority and the South Sydney Development Corporation. On no account should these be capable of declaration as LGBs for the purposes of FAGs.

The legislation needs to be tightened to prevent misuse of FAGs for purposes contrary to the interests of elected local government. Provision should be made for disallowance of a declaration by the Parliament. In any case, there should be consultation with local government before the ministers can move to declare LGBs.

8.6 Links to State Funding and the GST

The Commission documented the slower rate of growth, or even real decline, in State grants to local government that has occurred since FAGs were introduced. In essence, the States have been happy to let the Commonwealth support local government and retain their own revenues for their own purposes.

In NSW, this reduction in the relative importance of State assistance to local government has been exacerbated by the imposition of rate pegging and levies on councils, as discussed in section 4. To a significant extent, the Commonwealth's intentions in introducing FAGs - of making real improvements to the quality of local services and enabling local government to make an enhanced contribution to the system of government - have been subverted.

This raises the question of whether the provision of FAGs to local government should be linked to Commonwealth-State financial relations in a way that ensures the Commonwealth's policy intent is upheld. SSROC believes this should be a matter for the next Commonwealth-State financial agreement. So should the question of whether FAGs should be funded from a fixed share of the GST - or the annual rate of increase matched to that of GST transfers to the States - thus providing local government with a much-needed 'growth tax'.