



UNFINISHED BUSINESS?

A DECADE OF INQUIRIES INTO AUSTRALIAN LOCAL GOVERNMENT

Background

One of the most important objectives of the **Australian Centre of Excellence for Local Government** (ACELG) is to support informed debate on key policy issues. Via its working paper series, ACELG aims to clear away some of the misconceptions and myths which can arise about and within local government without research evidence, and offer insights into the ways in which problems can be effectively addressed.

In that spirit, ACELG's Working Paper '*Unfinished Business? A Decade of Inquiries into Australian Local Government*' (ACELG Working Paper no.4, September 2011) examines the findings, recommendations and outcomes of nine major national and state inquiries (see below) into local government over the period 2001-08. It explores three key questions: what have been the major themes and ideas to emerge; to what extent have the principal findings and recommendations been implemented; and how much 'unfinished business' remains to be transacted in order to place Australian local government on a sounder footing.

The Paper is based on research conducted for ACELG by Brian Dollery, Professor of Economics and Director, Centre for Local Government, University of New England.

The inquiries studied were:

- Commonwealth Grants Commission *Review of the Operation of Local Government (Financial Assistance) Act 1995* (2001)
- House of Representatives Standing Committee on Economics, Finance and Public Administration ('Hawker' report) *Rates and Taxes: A Fair Share for Responsible Local Government* (2003)
- South Australian Financial Sustainability Review Board (2005)
- Independent Inquiry into the Financial Sustainability of NSW Local Government ('Allan' report, 2006)
- Western Australian Local Government Association *Systemic Sustainability Study* (2006)
- PriceWaterhouseCoopers *National Financial Sustainability Study of Local Government* (2006)
- Local Government Association of Tasmania *Review of the Financial Sustainability of Local Government in Tasmania* (2007)
- Queensland Local Government Reform Commission (2007)
- Productivity Commission *Assessing Local Government Revenue Raising Capacity* (2008).

The paper includes a comparative analysis of the inquiries against suggested reform themes. These are: *financial* (changes to the financial circumstances of local government); *functional* (changes in the number or types of functions performed by local government); *jurisdictional* (changes to the authority and autonomy of local government, including general competency powers, specific by-law making powers); *organisational and managerial* (changes to the administrative, executive, and management processes of local councils); and *structural* (changes to boundaries, numbers and types of local authorities).

Principle Findings

Overall, the paper notes that, over time, a significant number of the inquiry recommendations have been reflected in policy and legislative change. However, the patchy nature of responses to the inquiries, and

evident differences of opinion between state and local governments on priorities for further reform, point to two underlying issues that slow the process of change:

- State governments tend not to respond to inquiry recommendations unless they initiate and control the agenda themselves.
- Despite commissioning several of the inquiries, local government itself has mostly failed to assemble and prosecute packages of reforms that are acceptable to councils generally, and that also appeal to other key stakeholders – especially state governments.

The federal government has also been somewhat slow to act in those more limited areas for which it has responsibility, notably repeated findings that the system of distributing general-purpose financial assistance grants to local councils ('FAGs') should be re-examined. However, a review has recently been announced, and together with a review of the inter-government agreement on 'cost-shifting' and the upcoming national Tax Forum, could lead to significant change.

The inquiries reveal a broad consensus around the major issues for local government that are *key policy issues*:

- Local government's role and functions have expanded considerably over recent decades, and there is now a mismatch between expenditure demands and current levels of revenue, especially own-source revenues
- This mismatch manifests itself particularly in inadequate infrastructure maintenance and renewal
- More could be done by councils themselves to increase own source revenues and to improve financial governance and asset and financial management
- Local government's performance in long term strategic, asset, financial and workforce planning needs to improve considerably
- Many smaller councils struggle with lack of scale in their operations
- Greatly expanded regional cooperation and resource sharing may offer an alternative to amalgamations as a means of enabling councils to improve their efficiency and effectiveness
- Neither amalgamation nor resource sharing will ensure the sustainability of thinly populated and often geographically very large rural and remote councils: increased external support appears essential
- State governments should avoid cost-shifting on to local government, reduce compliance costs, and remove unwarranted restrictions on local government revenue-raising
- The federal government should review various aspects of the system of financial assistance grants, including the annual escalation factor
- State, and to a lesser extent federal, government relations with local government need to be enhanced through a variety of inter-government agreements.

Follow-up has often been slow and many specific recommendations have not been implemented. However, in general terms the inquiries can be linked to a considerable number of subsequent policy initiatives:

- Increased federal funding for local roads in South Australia (since 2005)
- Concerted action in South Australia since 2005 to improve financial management and other aspects of local government practice, including promotion of shared services, led in many cases by the Local Government Association (which recently launched a new 'Local Excellence' program)
- Various initiatives by other local government associations to help improve council performance
- The 'Inter-Governmental Agreement establishing Principles Guiding Inter-Governmental Relations on Local Government Matters' (cost-shifting) signed in 2006, and subsequent subsidiary agreements in most states
- Federal funding for community infrastructure provided as part of the stimulus response to the Global Financial Crisis of 2008
- Amalgamations in Queensland (2008)

- A review of rate-pegging in NSW by the state's Independent Pricing and Regulatory Tribunal in 2009 (leading to modification of the process but not abolition of the system)
- Introduction in 2009 of the Integrated Planning and Reporting Framework in NSW to improve strategic, asset, financial and workforce planning; and similar planning frameworks in several other states
- Federal funding of programs to improve asset and financial management, and collection of consistent national data, through the Local Government Reform Fund (launched in 2009).

With the exception of the amalgamations in Queensland, the policy changes and other initiatives that can be related to the various inquiries have generally been welcomed by local government.

A Continuing Agenda

In view of the findings, the following agenda of 'unfinished business' demands further attention:

- **Ongoing concerted efforts to expand local government's own-source revenues** from rates, fees and charges. This would also be consistent with the findings of the 'Henry' tax review (Henry et al 2009).
- **A review of the system of federal financial assistance grants (FAGs)**, including the annual escalation factor, which gives more weight to the differing fiscal capacities and revenue-raising efforts of councils, and which recognises that the quantum of assistance is unlikely to reach a level sufficient to achieve full equalisation.
- **Detailed examination of the special needs and problems faced by small (in population) rural-remote councils**, including their likely sustainability into the longer term and the appropriateness of current legislative concepts and frameworks.
- **Full implementation of recent moves towards improved long-term strategic, asset, financial and workforce planning**, including increased efforts to improve the quality and reliability of data, and expanded programs to improve the understanding and skills of both managers and elected members.
- **Related measures to improve the quality and consistency of financial governance**, applying principles such as those outlined by the Productivity Commission (2008) and some form of performance auditing against agreed key indicators.
- **Expanded and strengthened regional collaboration and resource sharing** (shared services), based on the establishment of robust and well resourced regional entities, amounting in some instances to fully-fledged 'regional councils'.
- **Further examination of the potential for council amalgamations in specific regions and circumstances** in order to enhance local government's capacity to address emerging challenges and to become more resilient in the face of profound and/or unexpected changes in its operating environment.
- **A new or revised inter-government agreement** to establish a clearer consensus on the evolving responsibilities of local government and the role it may reasonably be expected to play in the broader system of government.

Further Information:

To download a copy of the report, go to www.ancelg.org.au Your feedback and comments on this paper are welcomed by ACELG. Please contact Stefanie Pillora, Program Manager Research, stefanie.pillora@ancelg.org.au