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PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

Main Committee

COMMITTEES

**Economics, Finance and Public
Administration Committee**

Report

SPEECH

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Questioner
Speaker Cox, David, MP

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Mr COX (Kingston) (4.31 pm)—It is a pleasure to speak on the tabling of this report of the Economics, Finance and Public Administration Committee today. It represents an opportunity to rejuvenate a great Labor initiative of about 30 years ago when the Whitlam government first began giving general purpose financial assistance grants from the Commonwealth to local government. On that occasion it did so according to need, on the recommendations of the Commonwealth Grants Commission, and it did so directly from the Commonwealth to local government bodies. In that case, to deal with constitutional issues, the Commonwealth had local government set up regional organisations which made applications for grants that were then paid.

The system of providing those grants has changed somewhat over the years since then. In 1975 the Fraser coalition government adopted provision of financial assistance to local government as part of its new federalism policy, so it accepted what the previous Whitlam government had begun doing. Under Fraser, local government received a proportion of personal income tax collections, which gradually grew to two per cent of personal income tax collections by 1980-81. The allocation of grants, however, was changed to a combination of a minimum per capita grant and an equalisation. When the Hawke government came to office, that situation was in place, but in 1985-86 the Labor government decided to change the system of allocating assistance to local government. It increased the quantum of assistance to local government by two per cent plus the CPI but ended tax sharing. Instead, local government was given increases in line with Commonwealth financial assistance grants to the states with a real terms guarantee. That real terms guarantee turned out to be important because in the next few years Commonwealth assistance to the states fell, but the real terms guarantee maintained the value to local government of Commonwealth financial assistance grants.

The method of allocation for a time remained unchanged, but in 1986 the Labor government announced that it had accepted certain recommendations of the Self report. Those were: to distribute grants between the states on a strictly per capita basis—which is the situation today; local government grants commissions in each state were to distribute the grants on principles determined by that state; all local government bodies would receive a minimum grant—as is the case today; and provision would be made for remote Aboriginal communities to receive grants.

In 1991-92, when the Council of Australian Governments was established, one of the initiatives of the Hawke Labor government was to untie identified road grants to local government. They were added to financial assistance grants and distributed between the states at what have become historic shares that were set in 1992.

In 1995 the Keating government, following another review, adopted a set of national principles for the allocation of grants within states by local government grants commissions. That Labor government changed the basis for setting the pool for state grants to a real per capita guarantee—an initiative of former Treasurer Willis that I was involved in. At that time State government was also given a real per capita guarantee. So that was an improvement on the real terms guarantee. It was significant because it meant that grants kept pace not only with inflation and state grant levels but also with increases in population.

Then the Howard government was elected and at least its policies took a divergent track. In 2000 the coalition proposed that the states assume responsibility for providing financial assistance grants to local government. However, that policy was overturned by an agreement between the Prime Minister and Senator Lees, who was Leader of the Australian Democrats. The coalition government severed the link between grants to the states and grants to local government when it hypothecated Commonwealth GST receipts as payments to the states and, apart from a funding cut in 1996, the coalition government has maintained grants to local government in real per capita terms—the terms that were set by former Treasurer Willis in 1995. So to date the only significant change that the Howard government has made to local government funding arrangements has been to allow local government to claim input tax credits for the GST that it pays.

Why is local government funding important? One of the major trends in Australian society is geographical inequality; that is, the pattern of advantage and disadvantage is concentrated on a geographic basis. If we want an egalitarian society in Australia today we cannot afford to have life opportunities allocated by postcode.

Local government has a major role to play in addressing equality. However, there are significant inequities between the needs of different communities and the resources available to them. Inner cities, fast growing outer metropolitan areas, regional, rural and remote communities all have different needs for physical services, social services and infrastructure. They also have different capacities to raise revenue and those who live within their boundaries have different capacities to pay. The purpose of Commonwealth general purpose financial assistance to local government is to help meet local needs at an affordable cost to local communities. The concept of fiscal equalisation by providing financial assistance grants on a needs basis according to the relative cost to each community of meeting those needs and each community's capacity to pay is a fundamental principle on which our federation is based.

Because federal funding provides an average of about 20 per cent of local government revenues it is not possible to run a full fiscal equalisation model, as is the case with the states, which receive on average about half their revenue from federal grants. However, it is possible to achieve a much fairer and more effective allocation of local government funding. As of today, Labor are advancing a policy on funding local government that has been developed incorporating some of the principles involved in this inquiry. That commitment is that we will adopt a direct funding relationship from the Commonwealth to local government bodies, move towards a needs based national model of allocation and provide a real terms per capita guarantee to the total funding pool.

Labor has adopted the major recommendations of this report. It is a very beneficial report for my own state, which has been at a disadvantage when one considers needs based funding because of the allocation of general purpose financial assistance grants on a per capita basis to the states. South Australia has some cost disadvantages and also, by comparison with other states, some revenue raising capacity disadvantages and it will therefore get a better share of this pool of funding.

South Australia has also suffered great detriment with its historically set share of local road funding. It receives only 5½ per cent of the available pool, which does not compare either with its population, the length of its roads or any other index which might be a determinant of need. The recommendation in the report to put untied local road money on a needs basis would correct for South Australia an enormous disadvantage.

There are basically four factors that distort the allocation of funding on a needs basis: the per capita allocation to the states; the minimum grant of 30 per cent of the per capita allocation—and this report recommends that minimum grants be phased out, which will obviously be a matter for significant debate; the inconsistencies between the equalisation models used by each of the states local government grants commissions—and obviously if it is a national initiative it ought to be allocated according to a national formula; and the local road component, which I have already mentioned, which has been allocated to the states according to a historic share that has been frozen since 1991/92.

Another issue in this report which I think is very important is the treatment of infrastructure. There was some suggestion from local government bodies that there be a national survey of their infrastructure needs and their maintenance. I thought that that was an inappropriate role for the Commonwealth. It has been my experience that, when you undertake those sorts of studies, the people who are offering the information will tell you how little infrastructure they have and how little maintenance they are able to do on it. If you are another tier of government, they will probably send you the bill for the difference between what they have, what they are doing and what they would like. If we are going to have a responsible role for local government, it is important that local government bodies come to grips with those issues themselves.

This report recommends that a national methodology be developed for local government bodies to assess their own infrastructure needs and their own progress in maintaining them, and that that information be one of the inputs to the Commonwealth Grants Commission in administering the needs based funding formula that is proposed here. The committee very wisely said that, if government bodies were not keeping up to the national standard in terms of their efforts on infrastructure, they should not be rewarded by the formula for perhaps diverting money from infrastructure maintenance to other recurrent purposes. I think that is a sound principle. The formula should not reward a lack of effort. The other issue that the formula would be able to deal with for the first time is the capacity of ratepayers in each local government body to pay. (*Time expired*)