



the Southern City

Australian Government Treasury Review

Australia's Future Tax System

City of Mandurah submission

October 2008

Introduction

The City of Mandurah is pleased to provide a submission to the Australian Government Treasury *Review of Australia's Future Tax System*. It is understood that submissions to the Review will inform a subsequent consultation paper that will be released by the *Australia's Future Tax System Review Panel* in late 2008, and that the Review final report will be delivered to the Federal Treasurer in late 2009.

The terms of reference for the Review include simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation, and consideration of all relevant tax expenditures. The City of Mandurah's primary concern is ensuring that any changes to Australia's tax system treat Local Governments equitably, regardless of which State or Territory they are located within. Currently this is not the case.

Recommendations

- **Revise the escalation methodology for Financial Assistance Grants from a mix of population growth and CPI to a new escalation formula tailored to Local Government cost movements e.g. a combination of the Australian Bureau of Statistics Wage Cost Index and Construction Cost Index coupled with population growth**
- **Ensure that the quantum of Commonwealth FAGs general purpose funding to Local Government remains at or above 1 per cent of total Commonwealth taxation revenue**
- **Provide Financial Assistance Grants directly to local governments via a national distribution model**
- **Deliver the Australian Government's proposed new *Regional and Local Community Infrastructure Fund* to Australian Local Governments under two categories:**
 - **Fund 1 – provide regional community infrastructure funding for the renewal or replacement of existing community infrastructure; open to all Local Governments; approximately \$250 million per annum over 5-year minimum period**
 - **Fund 2 – provide additional regional community infrastructure funding for the provision of new community infrastructure for rapid (2%+ per annum) and hyper (5%+ per annum) growth Local Governments; determined by ABS Regional Population Growth data; eligibility requires the LGA's current 5-year average population growth rate to exceed 2% per annum.**

Specific items for consideration include:

1 ALGA Budget Submission

In January 2008, the Australian Local Government Association (ALGA) released its 2008/2009 Budget Submission – *National Objectives Need Local Delivery* – to the Australian Government. The ALGA submission outlined five strategic priorities, which included delivery of Federal election commitments, reforms to intergovernmental relations, investing in national roads and transport systems, streamlining Local Government regulation, and addressing climate change and indigenous housing. The City's submission focuses on ALGA's proposed reforms to intergovernmental relations, and specifically, proposed Financial Assistance Grants (FAGs) funding reforms.

The ALGA submission noted that, since the establishment of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations in 1999, the level of FAGs funding to Local Government had not kept pace with the growth of Commonwealth and State revenue.

*"Yet the methodology for determining Local Government FAGs has remained relatively unchanged for decades, and is not linked to growth in the economy, unlike the general purpose funding for the States and Territories which is provided through the GST."*¹

ALGA's submission called for a fixed share of Commonwealth taxation revenue of at least 1 per cent, which it claimed would increase Local Government FAGs funding from approximately \$1.82 billion currently, to \$2.44 billion in 2008/09.

The submission also highlighted the difficulty faced by Local Government in increasing rates, as State Governments become increasingly dependent upon property taxes. ALGA claimed that the tax burden placed on property owners by State Governments had increased from 30 per cent to 41 per cent of total State taxation revenues over the past six years. It also noted the effect of vertical fiscal imbalance (VFI) on State and Local Government budgets.

*"Similarly, under our Federal system, the Commonwealth has an obligation to achieve horizontal equalisation across States and across Local Governments to ensure that all citizens receive equitable levels of government services. Currently FAGs are not adequately addressing VFI or horizontal equalisation."*²

The City of Mandurah concurs with ALGA's claim, particularly as it relates to the existing (and growing) inter-State FAGs horizontal equalisation inequity. The City supports ALGA's call for a fixed share of at least 1 per cent of Commonwealth taxation revenue.

¹ Australian Local Government Association; 2008/2009 Budget Submission; *National Objectives Need Local Delivery*; January 2008; p.8

² Australian Local Government Association; 2008/2009 Budget Submission; *National Objectives Need Local Delivery*; January 2008; p.11

2 Financial Assistance Grants

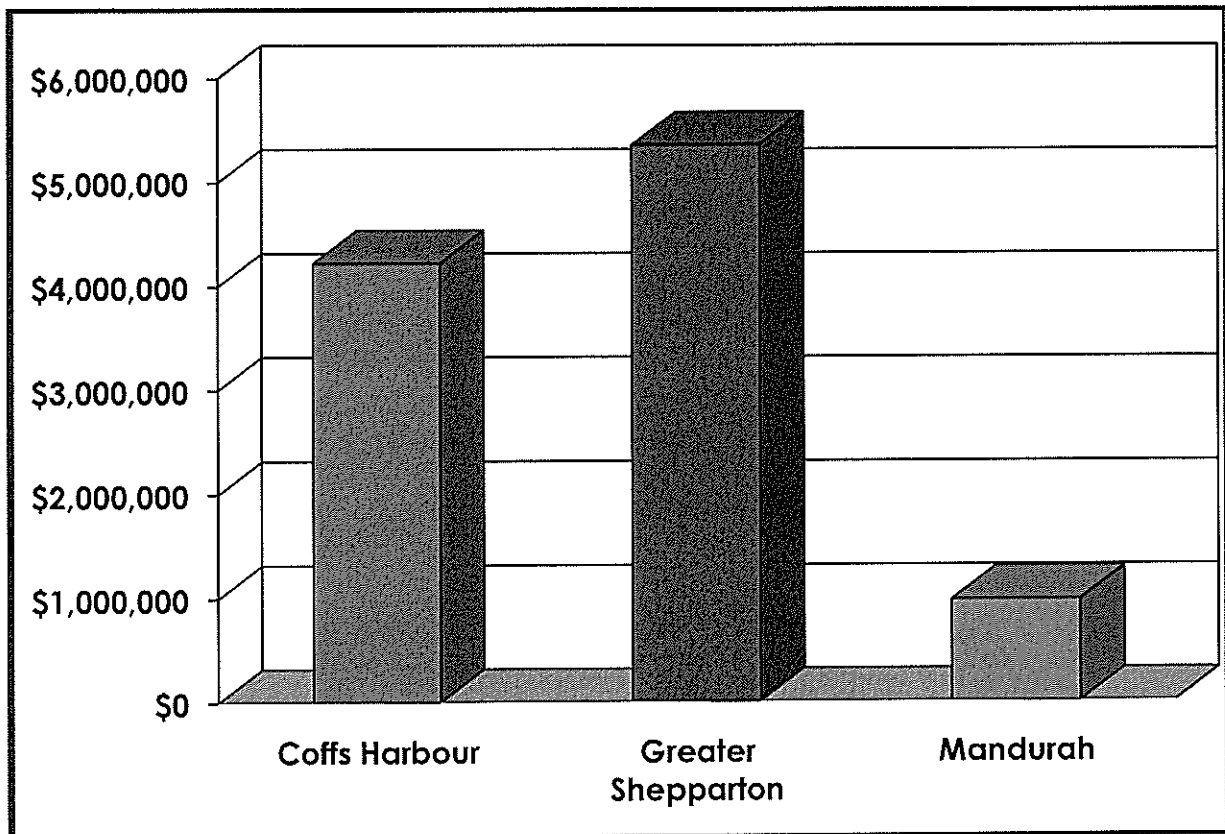
The current method of distributing the 'General Purpose' grant component of Financial Assistance Grants requires a complete overhaul. Under the current distribution model, the General Purpose component is apportioned by the Commonwealth Grants Commission to State and Territory Grants Commissions on a per capita basis i.e. based on the population of each State and Territory. However, when the intra-State distribution occurs, these grants are then apportioned to Local Governments based on the principles of full horizontal equalisation and the minimum grant.

The existing FAGs distribution method allows outer metropolitan and inner regional Councils in populous States such as NSW & Victoria to automatically receive significantly larger grants – on average 4 to 5 times the grant received by similar sized WA Councils - regardless of their actual need.

For example, in 2005/06, the City of Mandurah's General Purpose FAGs entitlement was \$980,900 (\$17 per capita), whereas Coffs Harbour City (NSW) received just over \$4.2 million (\$63 per capita), and the City of Greater Shepparton (VIC) received more than \$5.3 million (\$89 per capita). This is despite all three Councils having similar population sizes and demographic structures, and a Local Government classification of Urban Regional Medium (URM)³.

³ Department of Transport and Regional Services; *2005-06 Local Government National Report*; 2007; pp 159, 165, 177

**Financial Assistance Grants
General Purpose Grant 2005/06 (Actual Entitlement)**



The City of Mandurah contends that the Commonwealth Grants Commission should introduce a 'national distribution' model, providing General Purpose grants directly to Local Governments (bypassing the States), based on their relative 'need' (horizontal equalisation), rather than on their State's population. If the Australian and State Governments are serious about achieving a nationally equitable distribution of funds, then surely each Australian Council should be assessed against all other Australian Councils when competing for FAGs funding, rather than against only those Councils in their state.

Whilst each State's Local Government Grants Commission would no longer be responsible for determining the final quantum to be distributed among its Councils, they would retain a significant role in collating data on each Council within their State, and comparing each Council's disability factors with those in other States to determine which Councils have the greatest need.

The Minimum Grant principle ensures that each Council receives at least a minimum level of General Purpose assistance as required by the Act. This minimum is set at 30 per cent of a Council's per capita share of General Purpose grants. However, the current 2-stage national/state distribution method has resulted in States with relatively small populations, such as Western Australia and South Australia, having a disproportionate number of Minimum Grant Councils.

To illustrate, in 1996/97, WA had 14 Minimum Grant Councils (all Metropolitan LGAs), which comprised 43% of the State's population. In 2006/07, the number of WA Minimum Grant Councils had grown to 30, which comprised 75% of the State's population. During the same period, South Australia had 22 Minimum Grant Councils, comprising 55% of its population. By comparison, in 2006/07 only 25% of NSW's population resided in Minimum Grant LGAs, and 18% in Victoria.

In November 2006, PricewaterhouseCoopers released its *National Financial Sustainability Study of Local Government* report, on behalf of the Australian Local Government Association. The PWC study was given the task of assessing Local Government's viability, identifying issues affecting sustainability, developing recommendations to improve sustainability, and investigating potential reforms of inter-government funding, and made a number of recommendations in the areas of internal reform and inter-government funding.

One of the key PWC recommendations was revision of the current FAGs escalation methodology for from the existing mix of population growth and CPI to a new escalation formula tailored to Local Government cost movements (e.g. a combination of the Australian Bureau of Statistics (ABS) Wage Cost Index and Construction Cost Index coupled with population growth)⁴. The City of Mandurah supports this key PWC recommendation.

3 Cost Shifting

Finally, the City contends that the Treasury Review should analyse one of the greatest issues currently being faced by Australian Local Governments - cost-shifting.

In October 2003, the House of Representatives Standing Committee on Economics, Finance and Public Administration released its report – *Rates and Taxes: a fair share for responsible local government*. The report had identified cost shifting, and also constraints on Local Government revenue raising as a significant problem confronting Local Government. The report noted that:

*"The large volume of evidence to the Committee clearly shows that cost shifting onto local government by the States has occurred over many years."*⁵

Cost-shifting primarily occurs when a State or Federal Government agency ceases providing a community service, and Local Government is subsequently required to 'fill the gap'. Examples of cost-shifting to Local Government include mosquito control, crime prevention and community safety, community wellbeing, road and bridge infrastructure maintenance/replacement, public transport provision, environmental monitoring and protection, provision of affordable housing, and provision of new sporting facilities.

⁴ PricewaterhouseCoopers; *National Financial Sustainability Study of Local Government*; November 2006; p17

⁵ House of Representatives Standing Committee on Economics, Finance and Public Administration; *Rates and Taxes: A Fair Share for Responsible Local Government*; October 2003; p.30

4 Local and Regional Infrastructure Funding

In May 2008, the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government commenced an *Inquiry into a New Regional Development Funding Program*. The Australian Government had previously announced that it would establish a *Regional and Local Community Infrastructure Fund* from 2009, to support major investments in local and regional community infrastructure initiatives. The Inquiry sought to determine the most appropriate and cost-effective model for funding future regional community infrastructure projects.

The November 2006 PricewaterhouseCoopers' report had revealed the existence of a \$14.5 billion backlog in Local Government infrastructure renewals nationally. To address this massive infrastructure shortfall, the PWC report recommended the introduction of a *Local Community Infrastructure Renewals Fund* (LCIRF), which would provide approximately \$250 million per annum for infrastructure renewal and replacement.

The City of Mandurah's submission to the 2008 Inquiry recommended that in addition to the LCIRF recommended by the PWC report, a second fund should be established to assist rapid-growth Councils with the provision of new community infrastructure. The City recommended that eligibility parameters be established, primarily guided by historical growth trends being experienced by Councils i.e. based on 5-year average annual growth rates as determined by the Australian Bureau of Statistics.

The City of Mandurah is one of Western Australia's fastest growing Local Government Areas, and over the longer term, one of the fastest growing regional areas in Australia. Mandurah is currently experiencing 5-year (2002-2007) average annual growth of 4.4%, compared with the WA average of 1.8%, and national average of 1.4%.⁶

Over the 30-year period 1978-2007, Mandurah's growth has averaged approximately 6.5% per annum. During this period, Mandurah's population has grown more than sixfold, from a town of about 10,000 to a city with a population in excess of 61,000.

The City's view is that any new regional development funding program must allow for both the renewal and replacement of existing community infrastructure, and the provision of new community infrastructure in rapidly growing areas. Scope exists to divide the new regional development funding program into two components:

- Fund 1 – provides regional community infrastructure funding for the renewal or replacement of existing community infrastructure; open to all Local Governments; approximately \$250 million per annum over 5-year minimum period

⁶ Australian Bureau of Statistics; *Regional Population Growth, Australia*; 19 August 2008

- Fund 2 – provides additional regional community infrastructure funding for the provision of new community infrastructure for rapid (2%+ per annum) and hyper (5%+ per annum) growth Local Governments; determined by ABS Regional Population Growth data; eligibility requires the LGA's current 5-year average population growth rate to exceed 2% per annum.

The City of Mandurah keenly anticipates the implementation of the Australian Government's new Regional Development Funding Program. It is understood that upon the completion of roundtables and public hearings, a report will be tabled in Federal Parliament in 2008/09.


Allan Claydon
Acting Chief Executive Officer