

FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

1. Purpose

This paper outlines background information and recent developments on the issues arising from the independent inquiry into the financial sustainability of Local Government. It notes progress on implementation of the recommendations and the state of the current debate between the two spheres of government.

1. Background

The Local Government Association (LGA) established an independent inquiry into the Financial Sustainability of Local Government in February 2005. It appointed Mr Bill Cossey, Ms Juliet Brown and Mr Wayne Jackson as the independent board to conduct the inquiry and Access Economics to provide support to the board.

The board issued a discussion paper, an interim report, received public submissions, conducted public hearings across the State and issued its final report in August, 2005.

The Inquiry found that councils do not have the revenue to maintain the current level of services and maintain infrastructure and that a substantial number are "unsustainable" on current policy settings.

It made significant recommendations regarding the need for Local Government to improve its financial governance but also noted that other governments impact on councils financial sustainability in various ways. It noted that SA Councils get an unfair share of Commonwealth funding for Local Government and that the SA Government provides the lowest level of per capita grants of any mainland State or Territory.

The following points summarise key aspects of the report:

"A widespread need exists to increase expertise and understanding regarding financial governance among elected members as well as at the officer level.

Strengthened policy frameworks and improved financial governance are essential across the local government sector if:

- Councils are to have the financial capacity to deliver on those key outcomes in South Australia's Strategic Plan that are reliant on an efficient and effective local government sector; and*
- The local government sector is to be positioned to negotiate with the State government on level terms, including to clarify roles and responsibilities and to agree joint activities." [Vol 1. Pp. 1-2]*

The report also found that *"Expenditure decisions by local government that are more strategic and which lower the cost of providing core services are at least as important as increased grants or rates revenue." [Vol 1. P.5]*

The report made a range of recommendations focused on State-local relations. The full report can be accessed via www.lga.sa.gov.au/goto/fsp.

At the January Forum meeting a detailed report was given on the LGA response to the report and the Government's response to the key intergovernmental issues raised. The meeting noted that while there have been significant improvements by many councils since the data used by the study was collected (2003-04), further action needs to be taken across the sector to ensure councils' long-term financial sustainability. It is also considered important that Local Government is aware that the State Government is supportive of the sector as it works towards implementing the recommendations.

Minister McEwen noted that while it was important for the State Government not to comment on the report until Local Government had considered it, it was now timely for the State to consider a response on the Local Government sector's position on the report. It is anticipated that debate will continue on the respective roles and responsibilities of State and Local Government as they relate to issues identified by the Inquiry, and the State's ongoing engagement with the Inquiry's recommendations.

Mayor Rich highlighted the importance of the report to future development and enhancement of financial governance practices in councils. He also expressed appreciation for the Treasurer's recent offer to assist the LGA in addressing issues raised in the report.

The January Forum meeting recommended that a more detailed report be provided to the next Forum meeting following the Government's response to the LGA in relation to the Inquiry report.

2. Recent Developments

Since January the LGA has established a Financial Sustainability Advisory Committee (FSAC) and that committee and the Financial Accountability Advisory Committee (FAAC) have met to progress some of the key financial governance matters arising from the Inquiry. The LGA has held a series of forums with councils across the State in February/March to consult on Inquiry implementation matters and to provide briefings about the work of the financial sustainability program. The March 2006 LGA General Meeting also provided a forum for Local Government to consider a number of policy positions reports and resolutions on infrastructure, asset management and financial management matters. Notably it adopted a definition of financial sustainability as recommended by the Inquiry:

"A council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."

Also of note was the signing of a national tripartite Intergovernmental Agreement (IGA) by all State and Territory Governments, the Commonwealth and the Australian Local Government Association in April. This is an approach supported by the Inquiry.

In a letter to the Treasurer dated 11 April the LGA requested alignment of the 'budgetary considerations of both spheres of government' and a 'financial reform agreement' between the two spheres of government as a high priority for Local Government. The letter cites the National Competition Policy framework, and in particular, the LGA understanding of Clause 7. This relates to publication by the State of a new statement specifying the application of COAG principles to Local Government activities and functions.

The Treasurer responded to the LGA on 10 May and noted the role of the Minister's Local Government Forum (MLGF) as the appropriate mechanism to discuss Financial Sustainability Inquiry recommendations. The letter also emphasises the need for Local Government to 'address the full gamut of financial governance requirements' and notes the Treasury support for financial sustainability through participation of a senior Departmental officer in the LGA Financial Sustainability Advisory Committee. The Treasurer states that he is happy to explore improved processes regarding financial reform between State and Local Government but does not support a separate financial reform agreement.

The State Government considers that advocacy for additional Commonwealth or State funding at this time needs to be mindful of the key recommendations from the LGA Financial Sustainability Inquiry, and in particular that Local Government should initially address those issues within its own control. Without improvements in financial management by councils themselves any additional grants that become available may not be strategically utilised and could in fact be applied in ways that further undermine long-term sustainability. The LGA has indicated consistent with a recommendation of the inquiry (8.2 (1)) that reviewing grants to ensure this is not the case would be a priority.

This position has been implicitly endorsed at the recent national Local Government Ministers' Roundtable on Council Financial Sustainability. Local Government Ministers and the Australian Local Government Association (ALGA) attended the meeting in Sydney. At that meeting ALGA President, Councillor Peter Bell stated clearly that financial sustainability and consequential financial management improvements were the clear priority for the Local Government sector across Australia. This was in the context for developing the case for increasing the base of Federal Assistance Grants to Local Government.

All recommendations made by the Inquiry (attached) were directed to the LGA or to Councils. A small number proposed that the LGA engage State Government in particular areas and two made explicit reference to the Minister's Local Government Forum.

The LGA has indicated it is giving priority to financial governance improvements in Local Government and has recently written to the Minister assuring her of this. It wishes also to advance intergovernment reform recommendations in collaboration with the State and/or Commonwealth as appropriate.

Prioritising the Inquiry's recommendations for implementation is properly a matter for the LGA and its membership to resolve. However, the State Government has indicated that it is primarily interested in seeing financial governance and sustainability issues addressed, and has offered resources to the Local Government sector to achieve those improvements identified in the Inquiry report.

5. Recommendation

That the Minister's Local Government Forum:

- 1. Receive and note the report;**
- 2. Be kept informed of progress on implementation of the LGA's Financial Sustainability Program; and**
- 3. In relation to any areas agreed for reference to the MLGF as a result of 2) a report with proposed action plans be brought to a future MLGF meeting with appropriate recommendations.**