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ALGA Comment on the Reform of the Federation Issues Paper 1

Local government is the third sphere of government in Australia's Federal system although it is not mentioned in the Constitution (but nor is COAG). Local government provides democratic local governance; vital local planning; service coordination; regulatory services; municipal and community services and local roads and other community infrastructure, often in partnership with other levels of government.

While at a principles level, the broad locational and functional responsibility of each level of government can be described, the specific roles and responsibilities of levels of government should (and currently do) vary according to the need for government involvement, the capacity of each level of government, changing perceptions of national interest and existing responsibility for particular issues. Australia's experience as a Federation is one of evolving and changing roles and responsibilities. Strict adherence to a fixed model of roles would fail to meet the needs of Australians.

In terms of overlap, the Commonwealth should fund national interest aspects of an activity, regardless of where policy and operational responsibility for that activity lie. A national interest test should apply where the service or infrastructure to be delivered results in benefits which are captured in part or in full at the national level. For example, national productivity and improved road safety outcomes lie behind the provision of funding through Roads to Recovery (R2R) which augments local government's own efforts.

The national interest also applies in ensuring an equitable and reasonable level of local services and infrastructure to all residents in communities throughout Australia. This reflects the need to avoid gross disparity in the environment and opportunities enjoyed by Australians and lies behind the provision of Financial Assistance Grants (FAGs) to local government. The distribution of FAGs to all councils takes account of horizontal fiscal equalisation principles but balances it with a minimum grant component which aims to maintain public confidence in and acceptance of the funding distribution.

This partnership approach to funding does not remove the burden of accountability from local government which remains accountable to communities through public and transparent reporting mechanisms and, ultimately, through elections. The level of accountability of local government to the Federal Government is appropriately light-handed and cost efficient, reflecting the fact that the FAGs are untied and are accounted for by councils through legislated requirements and also reflecting the fact that councils acquit R2R funds as being spent on roads but are not required to unnecessarily duplicate acquittal of expenditure on particular projects.

Cooperation between levels of government and the varying capabilities of our public sector workforce could be improved by facilitating the movement of public servants between the different levels of government and the public and private sector, including by looking at portability of conditions and superannuation.

COAG could be strengthened to better support Australia's Federation by focusing on broad strategic issues of significance – such as issues affecting federal financial relations or constitutional change. While the recent reforms of the structures supporting COAG have been positive, there remains a need for a council which focuses on planning.