



1 February 2018

Horizontal Fiscal Equalisation Inquiry  
Productivity Commission  
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Dear Commissioners

**Local Government Association of Queensland submission - Horizontal Fiscal Equalisation Inquiry**

The Local Government Association of Queensland (LGAQ) thanks the Commission for the opportunity to appear at the public hearings to be held in Brisbane on 5 February 2018. This submission provides information in relation to the appearance at the Brisbane hearings by the LGAQ.

1. The Local Government Association of Queensland is the peak body for local government in Queensland. It is a not-for-profit association established solely to serve councils and their needs. The LGAQ has been advising, supporting and representing local councils since 1896, supporting them to improve their operations and strengthen relationships with their communities. The LGAQ does this by connecting councils to people and places; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions.
2. Local governments depend on fiscal transfers from both the Federal and State/Territory governments. These transfers are sometimes portrayed as largesse towards local government and accompanied by the message that local government needs to be less reliant on other levels of government for their financial sustainability. The reality of public revenue collection and service delivery arrangements under the Australian Federation means that local government will continue to rely on fiscal transfers from State and Federal Governments in order to deliver essential services to communities. The existing fiscal transfer arrangements and formulae provide some certainty to funding levels of service delivery to communities.
3. The baseline shares of public sector revenue as collected are 80% Commonwealth, 17% State / Territory and 3% local government (ABS 5512 2015-16). Applying current fiscal transfer arrangements (GST, SPP, FAGs and R2R), the LGAQ estimates that adjusted revenue shares are 56% Commonwealth, 40% State / Territory and 4% local government. In Queensland, the State usually makes further transfers to local government. Any change that reduces Federal transfers to the Queensland State Government will consequently reduce the capacity for the State to make fiscal transfers to local government, reducing services to communities.
4. While Queensland councils levy rates and other charges (own source revenue), these provide less than 50% of local government revenue across the State. To support its regular analyses of councils, the LGAQ developed a segment system to group councils according to shared characteristics: SEQ, coastal, Indigenous, resources and rural/remote. SEQ and coastal segments are the only segments that achieve over 50% revenue from rates and charges and all other segments remain highly dependent on grants and recoverable works. Average rating levels across Queensland local governments are at the upper limit of ratepayers' capacity to pay compared with OECD averages (Warren & Mangioni 2012 *Tax Trends Post the Henry Review and Tax Forum*, presented at the International Property Tax Institute (IPTI) Conference on Local Government Rates and Revenue, 15-16 March 2012, Sydney in AEC 2013 *Factors Impacting Local Government Financial Sustainability: A Customer Segment Approach*), and continuing the trend of significant rate increases is not likely to be sustainable, particularly for the SEQ, coastal and rural/remote segments. Indigenous councils do receive any rates revenue.

5. Queensland local governments are key providers and managers of infrastructure including community facilities, roads and bridges, stormwater management, water supply and treatment. The infrastructure and services provided by councils support the operation of regional economies and the communities they sustain. In turn, these regional economies connect and constitute the State and national economies.

Overall, Australia's economy is supported by public infrastructure delivered by each level of government. The respective shares of non-financial public asset responsibility by value are 10% Commonwealth, 65% State / Territory and 25% local government.

Unlike most states, Queensland local government maintains responsibility for water supply and waste water services, which require the maintenance of high-cost capital assets. The scale of the asset management task is considerable, with Queensland local governments managing \$98 billion of non-financial public assets. By comparison, the Commonwealth general government sector (which excludes public financial and non-financial corporatised entities), manages \$132 billion of non-financial assets (ABS 5512 2015-16).

6. To provide a real example: The State Government had long provided significant financial support to local government for infrastructure funding by way of subsidies for water, sewer, drainage and other programs, particularly around public buildings and public place programs. That funding to local government was significantly reduced in the five years to 2017. An analysis undertaken by the LGAQ estimated the loss of funding from the State to councils to be about \$800 million a year. The situation was compounded by the Commonwealth's decision to stop indexing Financial Assistance Grants for three years, which was estimated to cost Queensland councils a further \$180-200 million. The combination of reduced funding from the Commonwealth and the State to local government over this period of about \$1 billion per year had a major impact on the ability of councils to maintain services to communities, including in the high growth areas of the South-East corner and coastal councils.

Queensland local governments have just seen a re-instatement of crucial infrastructure funding by the State through the 'Works for Queensland' program. This has allowed councils to address important infrastructure works that had previously been unfunded due to the removal over a number of years of capital works funding programs. In a conversation with the State Government I have been told that the continuing ability of the State to fund the Works for Queensland program would be in doubt if it were to lose up to \$2.4 billion as is possible under some of the scenarios in the draft report.

7. In Queensland, local government is responsible for delivering the range of services outlined above across the entire land area of the State. That is, there are no areas of 'unincorporated land', which typically require little by way of community service delivery. Services to Queensland communities must be delivered to a widely distributed population. Of Queensland's 77 councils, 56 have population densities of fewer than 10 people per square kilometre (ABS 3218). Under these circumstances, operations to deliver equivalent levels of service to a distributed population do not achieve economies of scale. While other states like Western Australia also manage large land areas, much of the land is unincorporated and population concentration in a few major centres supports economies of scale and lowers delivery costs.
8. Queensland's population includes the highest proportion of Aboriginal and Torres Strait Island people (4%) with more ATSI people living outside of urban areas. 17 regional and remote local governments represent ATSI communities located from the Burnett region to the Torres Strait and across to the Gulf of Carpentaria. Indigenous councils are almost entirely reliant on Queensland and Commonwealth Government operating grants, while the rural/remote and resource councils are also very heavily reliant on grant funding, followed by recoverable works revenue received via State contracts (AEC 2013 op cit).
9. The Commonwealth Grants Commission (CGC) operates on the principle of horizontal fiscal equalisation and undertakes regular reviews to adjust its methodology. The LGAQ contributed to the 2013 Commonwealth Grants Commission Inquiry and recognises the important role performed by the CGC and its State counter-parts in applying methodologies designed to achieve horizontal fiscal equalisation. The LGAQ supports wider discussion and involvement of the Commonwealth Grants Commission and the Queensland Local Government Grants Commission in any review of fiscal transfers.



LGAQ is pleased to provide this submission and to make any further contributions sought by the Commission. I am available to discuss the submission and may be contacted on (07) 3000 2222.

Yours sincerely,

Greg Hallam AM

CHIEF EXECUTIVE OFFICER