

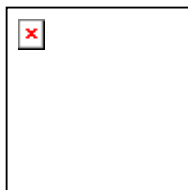


AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE PRODUCTIVITY COMMISSION'S ISSUES PAPER (May 2007):

ASSESSING LOCAL GOVERNMENT REVENUE RAISING CAPACITY

July 2007



Overview

Commonwealth, State and Territory legislation define the relationship between the Federal, State and Local tiers of government in Australia. The Australian Constitution defines the roles and responsibilities of the States, and associated State Constitutions define the roles and responsibilities of Local Government. In the case of the Northern Territory, it is administered under the *Northern Territory (Self-Government Act) 1978* and local councils are administered under Northern Territory legislation.

The Australian Capital Territory (ACT) shares similar legislative boundaries as the States and the Northern Territory; it is primarily legislated by the *Australian Capital Territory (Self-Government) Act 1988* (Self-Government Act). The Self Government Act provides no reference to a separate local government entity.

Canberra, as the National Capital and seat of Australian Government, also places unique responsibilities on the ACT Government, which works in collaboration with the Australian Government through the Federal Minister for Territories, and the National Capital Authority (NCA).

The NCA, an Australian Government statutory agency, manages the Australian Government's interest in the planning and development of Canberra as the Australian national capital. The Australian Government proclaimed it in 1989, the same year that the Australian Capital Territory was established as a self-governing and separate legal entity.

The *Australian Capital Territory (Planning and Land Management) Act 1988* provides for the NCA to prepare and administer a National Capital Plan. This is the statutory planning tool, which underpins the preservation and future of the capital, and delineates national capital land (administered by the Australian Government) and Territory land (administered by the ACT Government). Through the National Capital Plan, the NCA secures the interest of the Australian Government in the planning and development of Canberra and the Territory in accordance with their national significance.

Regarding municipal level of governance, in parallel with local government elsewhere, the ACT Government typically provides services to the ACT community for local roads, sporting facilities, community halls, art galleries, museums, libraries, parks and gardens, waste services, planning and development, environmental health services, immunisation, aged care, child care, emergency and recovery services, and water and waste water services.

The ACT is a member of the Australian Local Government Association (ALGA) and a member of the Council of Capital City Lord Mayors (CCCLM). The ACT Minister for Territory and Municipal Services is ex officio the lord mayor equivalent. It is through these mechanisms that the ACT participates in the formulation of national planning for local government initiatives and is subject to a myriad of accountability and funding mechanisms including an entitlement to assistance under the *Local Government (Financial Assistance) Act 1995* arising from its local government responsibilities. The ACT continues to work with other jurisdictions via these forums in seeking to develop a more consistent national framework for local government sustainability, asset planning and management and financial planning.

As a consequence of this three dimensional interplay with ACT Government service provision, this paper aims simply to provide the Productivity Commission (Commission) with an overview of how local government services are managed within the ACT. In many instances, the ACT is not able to comment on both interstate and intra-state operational and policy issues canvassed in the Commission's Issues Paper.

The ACT's approach should assist in completing a national local government profile and allow the Commission to review and report on any perceived limitations or identify possible new opportunities for local government to maximise own source revenue.

Organisational Structure

Local government service provision under current revenue and expenditure policy settings as practiced in the ACT, has not been subject to the degree of uncertainty, or concern, regarding financial sustainability as identified in reports prepared on behalf of local government associations at the state and national levels.

The city/state model reflects an arrangement where there exists no separate fiscus for local government revenues and expenditures. All revenues including taxes, grants, fee for service and fines are recorded in the ACT's consolidated revenues and recorded in the Territory's accounts and published in the ACT Budget Papers. There is no hypothecation of Local Government revenues to Local Government expenditure responsibilities.

A majority of local government equivalent services are delivered from the Department of Territory and Municipal Services (TaMS), which receive appropriations in the normal manner. There is of course some netting of fees against relevant services. This Department also performs State-like functions, best illustrated by the Department's functional statement:

The Department overall is responsible for: developing and implementing sustainable environmental policies and practices, particularly in the management of parks, nature reserves, waste and local sportsgrounds; managing and promoting sporting venues and sports development programs; promoting the nations capital as a tourist destination; providing government and community information and services through Canberra Connect and public libraries; building and maintaining roads, community paths and bridges; helping to keep Canberra clean and safe; developing transport and road safety policy; providing public transport, including ACTION buses; and operating commercial businesses such as the Capital Linen Service and the Yarralumla Nursery.

(Source: ACT Government Directory)

Revenue Sources

Unlike other jurisdictions, there is no disparity in the ACT's ability to raise revenue due to large differences in the tax base (rating ability) and differential ability to levy user charges among urban, regional, rural and remote councils. A single 'unitary' or 'fiscus' approach overcomes these impediments.

However, in keeping with Local Government practice elsewhere, the ACT Government administers the three main sources of revenue: municipal rates (taxation), user charges and limited grants from other spheres of government.

Rates

Local government taxation revenue is a charge on property owners, generally based on land value or rental value, for council provided services. In the context of the ACT, the main component of local government type revenues is in the form of general rates based on two components of fixed charge and, the unimproved capital value (UCV) system as used in New South Wales and Queensland.

In 2006-07, general rates are estimated at \$158.0 million, which represents 9.7 per cent of total ACT own source revenues.

The two key factors in determining rates revenue in the ACT are volume of ratepayers and value of properties. The ACT determines the existing properties subject to rates, and then factors new property growth. The Australian Valuation Office (AVO) determines the value of properties. For the purposes of establishing rateable values an average of the three most recent annual valuations is taken. This process provides the value of rateable properties on which rates are based.

Actual rates payable are then determined using:

- a fixed charge per property on the basis that all properties in the ACT receive a minimum level of service (eg roads, garbage removal); and
- a rate per dollar of rateable value.

The actual rating factor is determined by ACT Government policy after taking into account relevant budgetary issues. On occasions various ACT Governments have set targets or caps on total rates revenue such that the rate factor is calculated by dividing the target revenue by the value of rateable properties.

There are also rate exemptions and concessions commonly reflected by state governments and often supported by local governments, which typically include:

- pensioner concessions;
- deferment of payments where hardship can be demonstrated;
- charitable/benevolent organisations who receive rate exemptions; and

- government-owned land which may get either concessions or exemptions.

Sales of goods and services (User Charges)

Fees and charges are levied for the sale of goods and services. The majority of revenue in this category is derived from local government type charges for services such as domestic waste removal and water supply. The ACT Government, in common with all jurisdictions, has increased its revenue take from the sale of goods and services across the board.

This increasing source of revenue reflects a more disciplined cost recovery pricing for a range of government provided services. Unlike some jurisdictions, there is no statutory limit set on fees and charges. They are established at the discretion of the individual business units.

There are other fees that are imposed to regulate an activity, not as a direct recovery for cost of services provided. The level of regulatory fees (or fines) will relate to the price required to change the behaviour of consumers, such as parking fees for loading zone permits, and consideration is given to a range of economic, social and political factors in setting the fee.

There are, however, a number of key determinants that indicate to the ACT Government and the specific business units, the capacity and willingness for residents, businesses and organisations to pay for local services, namely:

- previous and current fees and charges, which informs community expectations;
- the nature of services provided (for example, libraries charge minimal fines as its goal is to encourage users to access services); and
- relative affordability for people on low incomes.

A further element informing Government consideration is comparable charges levied by nearby townships outside of the ACT such as Yass and Queanbeyan.

Governments of all persuasions have the ability to tailor their revenue raising policies to changing social behaviour with the environment of primary concern. The capacity and willingness of the public and business sectors in conjunction with the broader community to shoulder increased responsibilities is best illustrated in the case of waste recycling.

ACT NoWaste, a Government unit, manages contracts and service agreements for a range of waste and recycling activities. It has implemented a waste pricing strategy to determine the true cost of waste to landfill charges. The waste to landfill charges have been increasing since 2002 in an incremental manner so that it is aligned with the true cost of waste to landfill.

Nevertheless, landfill charges also need to be affordable to ensure roadside dumping does not increase.

Increases in waste prices are implemented on the basis of changing behaviour and facilitating the growth of the resource recovery industry. For example, the ACT encourages people not to pay increased waste charges but to take up cheaper recycling options. Increased waste prices have

also allowed the development of the resource recovery sector through waste processing becoming fundamentally viable as waste disposal costs increase. A number of other changes have been implemented and set on an operational cost recovery basis, for example asbestos disposal and computer disposal. The provision of additional household services is done on a cost recovery basis. However, additional recycling bins have been subsidised to assist large families/high waste generators to take up recycling.

Levies

There are two examples where the ACT Government has resorted to specific purpose levies, these being, a Fire and Emergency Services Levy (FESL) and a City Centre Marketing and Improvements Levy (CCMIL).

The FESL was introduced in 2006-07 and is charged on all rateable properties in the ACT. Revenue from the levy is the primary source of funding for fire and emergency services (which is traditionally seen as a State responsibility) in the Territory and this revenue item is expected to provide a regular revenue stream in the future.

In response to submissions from the private sector, the ACT Government has enacted special legislation, pursuant to the *Rates Act 2004*, to collect a levy to fund marketing and improvements in Canberra's City Centre. The CCMIL, introduced in 2007-08, applies to all commercial properties in the City and some selected surrounding areas. The levy is collected and administered by the ACT Government (the ACT Government is paid a nominal fee in exchange) and is returned to the private sector through a grants program. A not-for-profit company *Canberra CBD Ltd*, selected through an open tendering process, will allocate the grants with an aim of promoting, maintaining and improving the amenity of the Civic area.

Canberra CBD Ltd will have responsibility for the grants program for a five-year period. It is estimated that the grant will represent a revenue stream of approximately \$1.4 million per year.

Grants

The ACT Government receives current grants from the Australian Government in the form of untied, specific purpose payments or made under partnership funding arrangements. However, the ACT's circumstances do not replicate the system of State grants and subsidies, which are an important component of Local Government revenue in other jurisdictions.

The ACT is not required to redistribute funds to local governing bodies within the ACT, as is the case in the States and the Northern Territory in accordance with recommendations by their Local Government grants commissions. The minimum grant principle does not exist in the ACT.

Australian Government transfers – Financial Assistance Grants (FAGs)

The Australian Government has been providing untied financial assistance to Local Government since 1974-75. Grants to the ACT for Local Government services began in 1989-90, following self-government.

Unlike the States and the Northern Territory, the ACT is not legislatively required to use these payments for specific Local Government type services. All other jurisdictions are required to pass on these payments to Local Government via their respective Local Government Grants Commissions. These grants are untied and can be spent according to the priorities of their communities.

The associated identified local roads grants can be expended by the ACT Government according to its own priorities, and there is no compulsion to expend funds on local roads.

The total amount of funding is escalated each year (based on population growth and the increase in the consumer price index) to maintain the real per capita value of the FAGs. In 2006-07, the ACT received \$18.8 million in general purpose assistance and \$16.7 million for local roads.

Other Australian Government transfers – Specific Purpose Payments (SPPs)

In addition to FAGs, the Australian Government also provides funding directly to Local Government under a number of SPPs.

In part recognition of the role of Canberra as the national capital, the ACT receives two payments from the Australian Government for Local Government type services, namely, *ACT National Capital Influences* and *Assistance for Water and Sewerage*. These grants are discussed in more detail under the heading “*Factors Influencing Expenditure and Revenue Raising*”.

The ACT also receives SPPs to help fund local roads, child-care programs and facilities for the seniors and people with a disability. The *Roads to Recovery Program* is a major new source of revenue to the ACT and for Local Government elsewhere.

The ACT Government, similar to Local Governments elsewhere, is also eligible to apply for funding under programs administered by a number of Australian Government departments. This is program specific funding and the ACT must enter into a competitive process with other potential recipients.

Borrowings

The governance arrangements under ACT legislation affecting the ability of the Territory to borrow do not separately specify or distinguish levels of government responsibility. Decisions to borrow are taken at the whole-of-government level.

Expenditure Programs

The ACT Government continues to provide the full range of Local Government services in common with Local Government in other jurisdictions. They include:

- engineering (public works design, construction and maintenance of roads, bridges, footpaths, drainage, cleaning, and waste collection and management);

- recreation (golf courses, swimming pools, sports courts, recreation centres, halls, kiosks, camping grounds and caravan parks);
- health (water sampling, food sampling, immunisation, toilets, noise control, meat inspection and animal control);
- community services (child care, elderly care and accommodation, refuge facilities, meals on wheels, counselling and welfare);
- building (inspection, licensing, certification and enforcement);
- planning and development approval;
- administration (quarries, cemeteries, parking stations and street parking);
- cultural/educational (libraries, art galleries and museums); and
- water and sewerage.

However, the emerging pattern identified by various studies, that suggest that the Local Government sector in Australia is providing services and functions that are increasingly divergent from past traditional services, is not readily identifiable in the ACT. As discussed above, the absence of a separately distinguishable Local Government sector in the ACT does not lend itself to identification of a shift in roles and responsibilities between State and Local sectors.

Local Government's Financial Position

Recent national studies have implied that the financial position of Local Government in a number of States and at the national level suggest that a significant proportion of councils are under financial stress. This suggests that their current positions are unsustainable under their current revenue and expenditure policy settings.

Under the ACT's unitary system of government, it is difficult to draw any direct parallels to the ACT's circumstances. However, like the majority of public sectors more generally in Australia, the Territory's financial position is not static.

The ACT Government recently embarked on a fiscal reform package aimed at budget realignment of revenue and expenditure needs and responsibilities. The package encompasses revenue raising measures and reductions in expenditure through efficiency measures, realignment of service and infrastructure levels, while continuing to improve financial management and asset planning.

This program came about in November 2005 when the ACT Government announced that it had commissioned a broad-ranging review of government structures and programs.

The Strategic and Functional Review (the Review) of the ACT Public Sector and Services, looked into every area of government spending and assessed that spending against all of the Government's priorities.

The Government asked the Review to benchmark ACT Government expenditure against government expenditure in other jurisdictions, and to identify options for improving efficiency, not least through the reshaping of government structures. The Review was also asked to examine the potential for reductions in expenditure or increases in revenue.

Overall, the Review concluded that the cost of service delivery in the ACT had been 20 per cent above national benchmarks across all areas.

The Government subsequently responded with a comprehensive rolling program of reform announced in the 2006-07 ACT Budget and aimed at:

- implementing more effective structures for service delivery by government;
- introducing a more sustainable revenue structure by expanding the Territory's revenue base, aligning revenue with other States and improving cost recovery
- bringing agency costs closer to the national average;
- implementing further reforms in government information technology, property and procurement;
- investing in infrastructure maintenance; and
- further streamlining planning processes.

The Review also strongly recommended the ACT bring its charges into line with those in other jurisdictions and recommended that charges better reflect the costs to Government of providing services.

The Review found that estimated Local Government type revenues were less than the estimated expenditure on such services. It also noted that, due to the higher land values in the ACT, the rating factors in the ACT were relatively lower than in bordering New South Wales noting that while rates increases in the ACT were capped at CPI, the costs of service provision had increased at a higher rate.

In response, the Government increased general rates by one-off 6 per cent in 2006-07. General rates, along with all fees and charges, were also indexed at the Wage Price Index. As a consequence, general rates revenue increased by a total of 9.7 per cent in 2006-07.

Other announced revenue measures included:

- a fire levy similar to that charged in most other jurisdictions;
- a false alarm call-out fee to help recover the costs when the Fire Brigade responds to third and subsequent false alarms due to system faults;
- an increase in the ambulance levy paid by health funds;
- charges at cost recovery level for ambulance transport for people who are not covered by their health fund;

- full cost recovery for community work performed by ACT WorkCover under the Dangerous Substances ACT 2004 and full cost recovery for investigations following successful prosecutions;
- a water fee of 30 cents a kilolitre to be charged on domestic water supply. This charge should better reflect the value of water to the Territory, and encourage demand management by consumers;
- a land rental charge for utility infrastructure, applying to sewerage, gas, water and telecommunication utilities; and
- the adjustment of development application fees to bring them into line with adjoining local councils.

Of particular note to the Commission is the decision by the ACT to introduce a new Utilities Network Facilities Tax (UNFT) effective from 1 January 2007.

This tax requires utility network owners to pay a rate per kilometre of infrastructure on unleased land. It applies to all electricity, gas, water, sewerage and telecommunications networks.

The ACT considers the UNFT to be of a similar nature to a Local Government levy. It is a tax on ownership in a similar way that general rates are a tax on the ownership of land. Utilities subject to the tax are expected to pass it on to all consumers of their services, subject to regulatory and commercial considerations. As such it is considered a very efficient tax, as it has broad coverage in that virtually every household and business in the ACT would have water, electricity, telecommunications and gas connected.

The UNFT is not likely, in the Government's view, to unduly alter investment or consumption decisions. Utility infrastructure development is usually a very long-term investment, and returns are recouped over many years. The marginal cost of the UNFT on the initial investment is considered to be so small — at \$710 per kilometre of additional investment in infrastructure — that it will not act as a disincentive to investment or distort investment decisions.

In terms of consumer impacts, as the tax has broad coverage (almost 100 per cent of ACT residents when passed on to consumers), the additional burden that each resident faces is unlikely to alter consumption patterns.

The UNFT is more comprehensive than similar charges imposed elsewhere, as it includes all utilities — electricity, gas, water, sewerage and telecommunications. However, there are some precedents for Governments imposing charges on network infrastructure. For example:

- the AGL gas company in New South Wales has long paid Local Government when they have located their infrastructure within the Local Government's area; and
- in Victoria, a land tax has applied since 2004 on electricity transmission easements held by electricity transmission companies.

The Government also embarked on an accompanying reform agenda to reduce the cost of Local Government type services.

State and Territory Government Regulatory Constraints

Due to its city-state structure, Territory regulations are not generally an impediment to the ACT's ability to raise Local Government type revenues.

With respect to rates, the ACT does not have a large variety of land categories. As already mentioned, those currently used for rates purposes are commercial, residential and rural holdings.

On the other hand, the ACT is constrained in its ability to tax the Australian Government, which extends to the rates regime. Further constraints are imposed by virtue of protections afforded to certain bodies by Commonwealth legislation. Though this is not an ACT-specific constraint, compared to all other jurisdictions, a relatively high proportion of urban land in the ACT is owned or controlled by the Australian Government, or related entities exempted from taxes and charges by Commonwealth legislation.

As a result, the mandated exemptions to rates represents a significant limitation on the ACT's capacity to raise rates revenue, nevertheless, the Australian Government recognises these limitations through national capital grants (these grants are outlined under 'Factors influencing expenditure and revenue raising').

The ACT is also constrained by its jurisdiction being surrounded by New South Wales and needing to be reasonably comparable with New South Wales' fees and charges. Fees and charges are generally determined after reviewing charges in other States and Territories for similar activities. Recognition of submissions from affected parties can change the outcome if the submission appears reasonable, for example lower fees as a result of things such as recycling. Fees also seek to use an economic form of regulation to encourage a behavioural change such as those determined under a pollutant load based discharge licence — where heavier polluters are charged higher rates than those that emit less pollutants.

Impacts on Individuals, Organisations and Businesses

There are no legislated requirements to peg general rates on an annual basis in the ACT. The effects of an increase in rates or other Local Government type charges on individuals, businesses and organisations are taken into account when formulating the annual ACT Budget. Extensive modelling of the impacts of changes in rateable values and the rating factor is undertaken for the benefit of Budget Cabinet. This modelling enables evaluation of impacts for individual households, business and for suburbs.

Due to the close proximity of the New South Wales townships of Yass and Queanbeyan, there exists a possibility that cross border factors could influence the ACT Government's decision to increase general rates. Nevertheless, it is a difficult task to measure how differences in rates charges and the quality of Local Government services between the ACT and surrounding areas would influence an individual's decision on which side of the border to locate. The use of ACT provided Local Government services by non-residents is a further issue confronting the Government and is discussed in the next section.

Fines on individuals, businesses and organisations are set to discourage unwanted behaviour; nevertheless it needs to be set at an affordable rate so that an individual or an organisation is able to pay the fine. The ACT Government sets fines to ensure that it does not need to apply further resources in recouping the outstanding fine and local industries remain viable.

In the development of new residential, commercial and industrial neighbourhoods, there is currently no statutory means for the ACT to charge developers for infrastructure or to levy a developer contribution for planned infrastructure. The cost of infrastructure that a developer is required to provide is currently offset against either the amount the developer is prepared to pay for the land at the time of sale or against any change of use charge levied for a variation of a lease associated with the redevelopment of a site.

The ACT levies a change of use charge (previously known as a betterment charge) as a result of a variation of a lease that creates an increase of use or development rights. The change of use charge is levied in accordance with a formula under Section 184A of the *Land (Planning and Environment) Act 1991*, with increases and remittance percentages applied as per regulations under Section 184C. However, the market valuation methodology is a fluid process and the principle determinant of the levy that is ultimately charged.

All monies collected through the change of use charge and infrastructure charging goes into the Territory's consolidated revenues. There are no separate infrastructure funds established.

The effect on individuals, organisations and businesses of the use of developer charges is nominal in the Territory. Depending on the location and circumstances of a land release or lease variation, the lessee may be required to provide certain infrastructure works, as the timing and integration of the works with the particular development is the most efficient and effective way for the works to be delivered. The trade-off for the works being provided by the developer is revenue foregone to Territory for land sales or change of use charge.

Furthermore, irrespective of the market value, concessions are available for certain classes of lease, such as leases to community organisations who provide essential services and social infrastructure that the Government would otherwise be required to fund out of its own portfolios. The ACT Government has recently reaffirmed its commitment to providing land at concessional rates in certain circumstances.

Those developers, individuals and businesses that are not eligible for concessions, purchase land through a competitive process on the open market. The market determines the value of the land, having regard to the lease and other development conditions applying to that land, including specific requirements for offsite works (which may include the provision of certain infrastructure). When land is offered by direct sale, the market value of the land is determined, again having regard to the lease conditions and other development requirements for offsite works, applying to the land.

Factors Influencing Expenditure and Revenue Raising

Across all ACT Government departments, administrators simultaneously deal with both State and Local Government issues and consequently, there exists lower instances of administrative duplication in the ACT perhaps than is the case in other jurisdictions.

Whilst the ACT experiences diseconomies of small scale with regards to delivery of State services such as health and education, the opposite might be said for Local Government services, where the ACT possesses lower unit costs of Local Government operations due to its large size relative to other Local Government Areas (LGA).

A key factor influencing Local Government expenditure and revenue raising is the presence of the Australian Government in the ACT. ACT self-government was attained less than 20 years ago and when this occurred, the ACT Government inherited a well-planned city, which, amongst other things, provided for a level of public space well above that normally encountered in other cities of comparable size. A consequence of this is high Local Government recurrent and capital infrastructure costs required to service this public space.

In recognition of this legacy, and the role of Canberra as the national capital, the ACT receives two payments from the Australian Government in the form of SPPs titled:

- ACT National Capital Influences (NCI); and
- Assistance for Water and Sewerage.

ACT NCI is designed to broadly compensate the ACT for differences between the ACT and the standard Local Government authorities in general terms and relate to:

- the presence of a rating disability because of the exemption from general rates of a large number of national institutions;
- the presence of a further rating disability because of the exemption from general rates of the Australian Government's large presence in the ACT as the Seat of Government and head office for the Australian Public Service;
- additional costs resulting from the urban design, multi-level planning including the leasehold system (residential only) and dispersed layout of Canberra from a Local Government (as opposed to State) residential perspective;
- extra costs of the bush capital and open space system within the residential precincts as opposed to the inter-precinct open space system already claimed as a State disability;
- the overprovision of reserved parking for Australian Government and diplomatic/consular vehicles in the non-parliamentary triangle zones;
- the excess road lengths and widths for Local Government type roads and bridges, drainage and street lighting infrastructure;

- diplomatic impact on ACT Government municipal type services not already covered by direct fees for service in the areas of Recreation and Culture, Community Amenities and a combination of Social Welfare type services; and
- associated increased input, wage and salary and superannuation costs reflective of maintaining a municipal administration within a State legislature.

Likewise, the *Assistance for Water and Sewerage* SPP is designed to compensate the ACT for delivering a Water and Sewerage system reflective of Canberra's role as the National Capital. Importantly, the SPP is designed to:

- recognise the cost of an above standard water reticulation system with a capacity designed to support a population in excess of 500,000;
- compensate the ACT for the higher maintenance and operational costs arising from the excess length of water and sewerage mains due to the dispersed nature of urban development in the ACT in its open space setting;
- compensate the ACT for higher superannuation costs for water and sewerage employees; and
- contribute to the additional cost of the high quality sewerage treatment required because of Canberra's inland location and strategic catchments for the major inland waterways of New South Wales.

In 2006-07, the payments amounted to \$23.5 million and \$9.4 million respectively with the latter passed on directly to the ACT water and sewerage utility, ACTEW.

These SPPs had their genesis in the 1984 and 1986 Commonwealth Grants Commission (CGC) Reports on financing the ACT in the lead up to self-government and were subsequently built into the city-state funding model. They are an integral component of the model and contribute to the financial sustainability of the ACT.

A further key factor attracting ACT Government attention in the provision of government services is the growing impact of services that are accessed by non-ACT residents, particularly, New South Wales residents, through cross border flows.

While the bulk of cross border service costs are attributable to State like services such as hospitals and schools, initial estimations by ACT agencies suggest that up to 20 per cent of all Government provided services are utilised by non-ACT residents. To a lesser degree, ACT residents access New South Wales supplied services, but on the whole there is thought to be a large discrepancy in utilisation rates and costs.

Since self-government, the ACT has received partial compensation for the costs of some of these services through various mechanisms, ranging from limited fee for service provisions to direct negotiated compensatory arrangements such as the cross border provisions negotiated with New South Wales under the Australian Health Care Agreement.

At the State level, the most important compensatory mechanism is the CGC, which partly adjusts (equalises) GST payments to the ACT for costs arising from the use of state-type services by

New South Wales' residents that are not subject to other compensatory mechanisms. There is no similar mechanism, however, in existence at the Local Government level.

Given Canberra's role as the regional centre for many services, it is not unreasonable for New South Wales based residents to use ACT services. However, it is also reasonable for the ACT to be fully compensated for the additional costs of supplying public services to New South Wales residents, as ACT residents could suffer a decline in services as services are accessed by more non-residents.

While non-residents can and do contribute to the general economy and, therefore, indirectly to Territory revenues, this impact falls well short of the costs imposed by the services consumed at the State level and more indirectly at the Local Government level.

In recent years the population growth in regions around the ACT have been significantly higher than in Canberra itself. From 1997 to 2002, the population of the ACT grew by 4 per cent (12,800 people), while the population of Queanbeyan grew by 16 per cent, Yarralumla Shire by 15 per cent, and Yass Shire by 10 per cent (combined total of 6,900 people). This growth has meant the scale of cross-border interaction and service use by New South Wales residents has increased in recent years, and will probably continue as the population outside the ACT grows in response to factors such as lifestyle choices and housing affordability.

An evolving Regional Management Framework (RMF) recently established at the State level will be an important mechanism to deal with key cross border issues. The initial key themes developed between the ACT Chief Minister's Department and the New South Wales Premier's Department (include Water and Catchment Management; Settlement Patterns; Infrastructure; Economic Development; and Service Delivery) reflect the growing importance of these development issues.

A key objective of the RMF is greater coordination in policy development and program delivery with New South Wales. This is particularly the case with human service delivery, and may become increasingly important in relation to physical infrastructure such as roads. However, coordination of service delivery needs to be based on a sound basis of cost recovery.

Given the expected growth in the scale of cross border interaction, the ACT Government has initiated an immediate action across all Government agencies to assess current practices and shortfalls and to develop improved data on cross-border servicing. This will allow ACT agencies to consider new mechanisms for tracking cross-border interactions and will allow Government to make decisions on cost-shifting.

Other independent work corroborates the extent of the cost shift. A recent Access Economics Report titled *Fiscal Impacts of Cross-Border Developments*, highlights that even on a conservative basis; the extent of cross border use of the ACT's services is both substantial and not fully compensated through existing mechanisms.

While several options exist for addressing the cross-border funding shortfall for State like services, the most viable option for Local Governments services rests with seeking direct fee-for-service payments from New South Wales' residents accessing ACT based services where practicable.

Concluding Remarks

Given its city-state model, it is difficult for the ACT to contribute comprehensively to the Commission's study of the capacity of Local Government to raise own-source revenue and subsequent effects on the community. Nevertheless, the ACT Government faces issues regarding Local Government services similar to that of other LGAs and therefore, would take an interest in the outcome of Review.