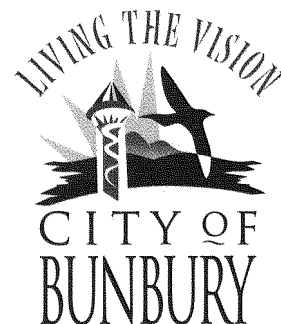


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6 August 2002.

The Secretary,
Standing Committee on Economics, Finance and Public
Administration,
House of Representatives,
Parliament House,
CANBERRA. ACT 2600

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:	242
Date Received:	
Secretary:	Burdell

Dear Sir,

**RE: SUBMISSION TO THE INQUIRY INTO LOCAL
GOVERNMENT AND COST SHIFTING**

INTRODUCTION

Background

The City of Bunbury situated on Koombana Bay some 180 km south of Perth is the regional centre for the fast growing South West. The City covers an area of 6,120 ha and is bounded in the north by the Shire of Harvey which is responsible for the Clifton Park and Australind residential areas, both of which are dormitory suburbs for Bunbury and contain more than 10,000 residents. The Shire of Dardanup on the eastern side of the City is responsible for Eaton, a suburb of approximately 8,500 residents located on the common boundary with the City. To the south lies the Shire of Capel and the residential areas of Gelorup and Stratham.

The City therefore has to provide services for its own population of almost 30,000 (ABS 2001) plus the residents of the surrounding residential areas in other shires where an estimated 25,000 persons reside within 15 km of the City centre. The adjoining shires have experienced population growth rates greater than the City's as urban development extends out from the City into those shires.

In a wider sense, the City provides regional facilities for an area encompassing Harvey, Donnybrook, Bridgetown, Collie, Manjimup, Busselton, Nannup and Augusta-Margaret River, the most densely populated region of Western Australia, and furthermore the number one Tourist Region in Western Australia outside the metro area with more than 1.3 million visitors annually.



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OUR VISION: Bunbury will be the most progressive and innovative regional city in Australia, enhancing the quality of life of its community and promoting its nautical heritage.

The City has a diverse economic base and is not dependant on any single sector of the economy. The Port of Bunbury is responsible for export of mineral sands products, bauxite, wood chips, alumina and grain from the region. Processing plants for these products are located within the region and much of the industry situated in the City has been established to support those operations.

Tourism is a major contributor to the economy with most visitors to the scenic South West passing through the City. Bunbury is a tourist destination in its own right with many kilometres of good swimming beaches, historic buildings, wildlife park and Dolphin Beach.

The South West Development Commission, a State Government organisation established to promote the region, has its headquarters in Bunbury. This has resulted in added focus being placed on the City and the surrounding shires as the Commission has provided financial inducements for the provision of regional facilities, however the City now has to provide the ongoing financial support.

The City is experiencing steady population growth and Council anticipates the City's population will continue to grow. The regional population centred on Bunbury exceeds 120,000 and is growing.

BUDGET NEUTRALITY

Council is concerned that the Terms of Reference require the inquiry to be "budget neutral" for the Commonwealth. Local government is dependant upon three major sources of income - its residents (own sources), the State Government and the Commonwealth. The Commonwealth Grants Commission Review of the "Local Government (Financial Assistance) Act 1995" found that the proportion of local government funding from these sources was:

Own sources	81%
State	7%
Commonwealth	12%

Given that a substantial amount of the State's income is provided by the Commonwealth, it is logical to assume that any additional Commonwealth funding to local government will be at the expense of the State which has ultimate control over local government. This appears to place local government in an invidious position and brings into question whether the outcome of this inquiry will have any overall impact on government transfers to local government.

TERMS OF REFERENCE

1. Local Government's current roles and responsibilities.

An indication of the City's overall roles and responsibilities can be obtained from the **attached** Budget.

2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.

The City, in common with most local governments has actively sought alternative revenue sources and had it not been for the City's ability to develop land it would have been unable to provide facilities such as the Bunbury Regional Entertainment Centre, Bunbury Regional South West Sports Centre and Bunbury Regional Art Gallery. Council now believes that it has exhausted all alternative income sources available to it under current State legislation.

A major alternate source of income for the City could be the ability to raise rates on State Government property, however this is not permitted under State legislation.

Council estimates a loss of Revenues of \$1.2 million due to the inability to rate other forms of government property.

The City of Bunbury believes that income has been eroded over the past ten years through the introduction of limits on fees and charges for services provided by Local Government. The inability to rate State Government property and Regulation of fees and charges under State legislation is estimated to cost the City of Bunbury the following on an annual basis: Building, Planning and Pool Safety (\$555,000), Environmental Health (\$50,000) and dog and litter control (\$100,000).

3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.

We submit that whilst local government is generally meeting its current obligations, financial constraints restrict the degree to which it meets those obligations.

This Council, and as far as we are aware, most councils in WA are working together on a regional basis and pooling resources in an effort to reduce costs and provide a greater range of services. The beneficiaries of these initiatives have mainly been the smaller local governments which on a regional basis are able to obtain access to resources not otherwise available to them.

Even though the City has sought assistance from local governments within the region it has not resulted in any of them contributing to the operating costs of the City's regional facilities such as the Bunbury Regional Art Gallery, Bunbury Regional Entertainment Centre and South West Sports Centre which all draw clients from across the region.

The Grants Commission does not take account of the regional facilities available in Bunbury when calculating the grant of other local governments in the region.

We believe that local government has the capacity to take on an enhanced role on a regional basis but cannot do so without additional funding. Undertaking regional roles does not inherently generate additional income.

Rationalisation of Roles

Further rationalisation of roles considered appropriate for all Local Governments in Western Australia are as follows:

The City of Bunbury is involved in the following regional arrangements: Regional Waste Council, and Regional Tourism Association and Cultural Art. These have cost over the past three years:

Regional Waste Council - 2001/2002 - \$304,000.

Regional Tourism Association - 2001/2002 - \$280,000.

The City of Bunbury also provides a range of services and activities. These include:

Law and Order, crime prevention in partnership with WA Police Services, CCTV community surveillance programme. (\$60,000)

Education Facilities - \$25,000.

Provisions have also included welfare services eg. Aged care, In Town Lunch Centre, Neighbourhood Watch, Social Planning, access to services for youth and the aged and Cultural development. (\$125,000)

Communications, including provision of a transmitter for SBS television reception (\$145,000).

4. **Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between State and local governments.**

Changes in the powers, functions and responsibilities between State and local government has severely strained local government funding and affected the City's ability to maintain its more traditional role.

Functions which have been transferred either in part or fully from the State to local government include:

- Community Security (policing)
- Public Housing (joint ventures)
- Heritage
- Environmental Controls
- Welfare Services
- Regional cultural facilities outside the Perth metropolitan area.

All of the above are essentially **people services**.

In most instances local government has not been provided with the funding for the above and the effect of this is reflected in the local government revenue and expenditure trends detailed in Chapters 15 and 16 of the Commonwealth Grants Commission Review of the *Local Government (Financial Assistance) Act 1995* of June 2001 (CGC Review).

In some instances the transfer of powers from the State has been direct, i.e. environmental controls, public housing and health issues such as control of smoking in public places and buildings. In other instances such as community security and regional cultural facilities, local government has been forced to take these up as a result of an inability or unwillingness by the State to provide them.

During the period under review the Commonwealth also transferred airports to local government, whilst in many instances the airports transferred were self supporting, this was not universally true.

Whilst the State has transferred functions and responsibilities to local government, it has still not granted local government the right to raise rates from State Government properties except in respect of housing and properties leased to non government organisations.

Direct Expenditures

The following is a list of direct expenditures incurred by the City of Bunbury which is argued should be a direct cost to either State or Federal Government and funded accordingly.

- Water Services provided by Aqwest as this would be a more efficient use of Local resources.

- Sewage Works by Water Corporation for better integration on planning issues.
 - Subdivision and Planning Approvals so there is more Local flexibility and incentives to encourage development.
 - Public Transport control to local community so more effective service provisions can be provided reflecting local community needs.
 - Port Facilities and Operations to allow greater integration of transport infrastructure and planning in the City.
5. **The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.**

Council submits that there is scope for rationalisation of services between the levels of government, especially between the State Government and local government.

Areas which stand out are law and order which has now become fragmented between the State police service, private security services employed by local government and private enterprise; and local government rangers.

Another is public housing which now, instead of being a State responsibility as it was in the past, is now often joint ventured with local government. We understand that the State receives funding from the Commonwealth for this purpose.

6. **The findings of the Commonwealth Grants Commission Review of the *Local Government (Financial Assistance) Act 1995* of June 2001, taking into account the views of interested parties as sought by the Committee.**

We agree fully with the perceptions on page 165 of the CGC Report, namely:

- X *local government was more important today than it has ever been;*
- X *local government is increasingly being "drawn into" new areas of service provision, often without access to additional funding;*
- X *local government's revenue raising abilities have been restricted by policies imposed by other spheres of government, such as rate pegging in New South Wales, the 20 per cent mandated rate cut in Victoria in 1995-96 and State Agreement Acts² in Western Australia;*

- X *Commonwealth and State assistance has not been sufficient to enable it to finance its expanding services; and*
- X *local government has responded by increasing rates and user charges, contracting out for private works, greater efficiencies, cutting back on other services, spending less on roads and increasing borrowings.*

We also note that the report found that the level of Vertical Fiscal Imbalance between the three levels of government has reduced with State and local governments now raising a greater proportion of their revenue needs from their own sources.

Unfortunately, whilst local government has increased its income relative to its expenditure, the growth in expenditure has been below that of both the State and Commonwealth.

At the same time the State Government has significantly increased its income relative to expenditure and simultaneously increased its own general purpose outlays at a greater rate than both the Commonwealth and local government.

It was during this period that a number of functions were passed from the State to local government, in most cases without provision of funding. As previously stated in Term of Reference 4 above, these functions were almost universally people functions. It is therefore not surprising that the CGC Review found in Chapter 15 that;

25. Figure 15-5 shows the pattern of local government expenditure since 1961-62. For ease of analysis, expenditure has been classified to seven categories. The figure shows that, over the period: the pattern of expenditure has changed markedly; the importance of Roads (Transport and Communications) has declined steadily; the importance of General Public Services has declined; and the importance of people services (Education, Health, Welfare and Public Safety and Recreation and Culture) has increased steadily.

26. This evidence supports the views that were put to the Commission during its consultation process. It does suggest that local government is increasingly being drawn into new areas of service provision. It also suggests that local government is funding these expanding areas by spending proportionally less on its traditional areas of service provision (particularly roads).

28. Table 15-3 also shows that while expenditure on roads has doubled in real terms over the last 37 years, expenditure on the people services has grown tenfold. The introduction of financial assistance grants in 1974-75 has changed this trend only slightly.

The CGC Report in Chapter 15, Clause 24, also appears to support our contention that the State has not provided funding for local to undertake the additional functions :

24. Although the amount of State assistance has increased in real terms since 1974–75, its rate of increase (0.4 per cent per annum) is about one-tenth of the rate of increase of local government own-source revenue (4 per cent per annum). Its decline in importance is almost exactly matched by the increase in importance of Commonwealth transfers.

The extent to which local government can increase the amount of revenue raised from its own resources is severely restricted by its relatively small revenue base and its “closeness” to its clients. Furthermore taxpayer dissatisfaction with increased Commonwealth and State Government charges manifests itself in even greater opposition to increases in local government rates and charges. The CGC appear to acknowledge this revenue raising disability and has labelled municipal rates a “slow growth tax”, a sentiment with which we wholly agree. Council fully agrees with the CGC’s conclusion that:

33. Local government has changed since the early 1960s. While it has expanded over that period, its rate of growth has been slower than that experienced by the Commonwealth and the States so that its relative size has declined.

34. Local government is increasingly being drawn into new areas of service provision. It has responded by increasing rates and user charges and spending proportionally less on roads. It has been constrained in what it can do because its primary revenue source (municipal rates) is a slow growth tax.

35. Local government revenue raising has decreased slightly over the period but it has remained unchanged since the introduction of financial assistance grants in 1974–75.

36. The level of assistance from the Commonwealth and State has declined slightly over the period. The introduction of financial assistance grants, signalled a passing of the baton and it is now the Commonwealth rather than the State which provides the greater share of transfers to local government.

Summary

Whilst clearly local government’s role and responsibilities have changed, the transfer of functions to local government is not the problem, it is the failure of both the State and Commonwealth Governments to also transfer funding.

A practical example of this best illustrates the problem. In the late 1990's the Heritage Council of WA became aware that the WA Local Government Grants Commission, when calculating a local government's Equalisation Grant, made an allowance of \$10,000 for each building in its care and control on the State Register of Heritage Places.

The Heritage Council is responsible for a significant number of places on the register and promptly wrote to many local governments advising that if they took over Heritage Places from the Heritage Council the WA Local Government Grants Commission would recognise **each place** with an allowance of \$10,000. The problem is that neither the State or Commonwealth Government had any intention of increasing the quantum of funds allocated to WA local government for equalisation.

The potential result, had the offer been accepted, was that the State would have transferred a liability to local government (on the pretext that individual local governments would receive additional Equalisation (Commonwealth) grants) without transferring funding because there was no proposal to increase total Commonwealth funds to local government.

Yours faithfully



Greg Trevaskis
CHIEF EXECUTIVE OFFICER