



Your Reference: Letter 9/8/02
Our Reference: G35/0045 - 363335
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20 August, 2002

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

Attention: Susan Cardwell - Inquiry Secretary

Dear Ms Cardwell,

Inquiry into Cost Shifting onto Local Government – Final Submission

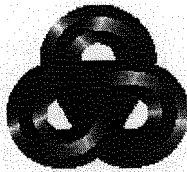
Thank you for your acknowledgement of our initial submission.

I now provide Council's final submission. This incorporates all the information provided in the initial submission together with some additional material. It would therefore be appropriate to replace the initial submission with the final submission.

Yours faithfully,

GORDON TRUMAN
Executive Manager
Strategy

House of representatives Standing Committee on Economics, Finance and Public Administration
Submission No: 256
Date Received:
Secretary:



AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

COUNCIL SUBMISSION TO THE HOUSE OF REPRESENTATIVES ECONOMICS COMMITTEE INQUIRY INTO COST SHIFTING ONTO LOCAL GOVERNMENT

On 28 May 2002, the House of Representatives Standing Committee on Economics, Finance and Public Administration announced it would be conducting an inquiry into the issue of cost shifting onto Local Government, and the financial position of Local Government.

The inquiry was initiated in response to concerns that Local Government is increasingly having to provide a range of services to communities such as health care centres, aged care facilities, employment programs, and security guards without the financial resources to do so.

The Inquiry has been referred by the Minister for Regional Services, Territories and Local Government, Wilson Tuckey, with the support of the Prime Minister and Treasurer.

The Minister has asked the committee to examine "ways forward for service provision", including reviewing international models and examples.

The Terms of Reference can be accessed at
<http://www.aph.gov.au/house/committee/efpa/localgovt/index.htm>

FINAL SUBMISSION

This submission is made on behalf of Hornsby Shire Council and does not represent the views of any other organisation. The ALGA template has been used in part simply to assist in the preparation of the submission. Council's initial submission was made on 26 July 2002 and has been augmented with further information to constitute Council's final submission.

NAME.....**Hornsby Shire Council (HSC)**.....
POPULATION SIZE..... **150,000**.....
GEOGRAPHIC SIZE.....**510 square kilometres**.....
CURRENT BUDGET.....**2002/03 Budget - Total Expenditure \$93.2 million**
(Statement attached)

RELEVANT DEMOGRAPHIC INFORMATION

Hornsby Shire is situated on the northern outer fringe of the Greater Sydney Metropolitan Region in New South Wales.

In 1996, the Shire's population was 136,000 since growing to approximately 150,000 in 2001, according to the ABS Census. Over 70% live in the urbanised eastern area of the Shire between Eastwood and Hornsby with 8% in the extensive rural and remote areas to the North and West. The Shire's population characteristics in 1996 were fairly average when compared to Sydney as a whole and to NSW – particularly with respect to age profile, family structure and ethnicity. However, the population varied from metropolitan and state averages in some significant ways – particularly in regard to its higher incomes, level of education and labour force participation.

Source: HSC Draft Leisure Strategic Plan: Recreation Planning Associates April 2002 (This information is currently being updated from the 2001 Census).

OVERVIEW OF HISTORICAL DEVELOPMENT OF THE COUNCIL

Hornsby Shire Council is constituted under the Local Government Act 1993. The Council of the Shire of Hornsby was first incorporated under the Local Government Act by proclamation published in the Government Gazette No. 121 of the 7th March, 1906. Only, 1,364 people were eligible to vote. The first election was held on 24th November, 1906 when six Councillors were elected to office. At the next election held in 1908 the number of Councillors was increased to nine - three to represent each of the three ridings (now called wards). The number of wards and Councillors has remained the same to this day, with just under 100,000 electors now enrolled.

A constitutional Referendum was held in conjunction with the 1999 Council Election and it has determined that from the next Council Election in 2003:

- the Mayor will be popularly elected by all Hornsby Shire residents who are eligible electors enrolled with the State Electoral Office
- ten other Councillors will be elected, five from each of two wards, by Hornsby Shire residents who are eligible electors enrolled with the State Electoral Office.

The Shire, situated on the north-western outskirts of Sydney, has an area of 510 square kilometres, much of it comprised of virgin bushland surrounding residential development. By area, it is the second largest council in the Greater Sydney Metropolitan Region, after Hawkesbury City Council. To the west lie rural communities, some of which still provide a variety of agricultural produce. The Shire is richly endowed with National Parks and recreation areas, whilst along its northern and eastern borders is the beauty of the Hawkesbury River and Berowra and Cowan Creeks.

Source: HSC Statement of Affairs June 2002

IS THE COUNCIL A MEMBER OF A REGIONAL ORGANISATION OF COUNCILS? **Yes.**

WHICH? **Northern Sydney Regional Organisation of Councils (NSROC)**

RESPONSES TO THE TERMS OF REFERENCE

1. Local Government's current roles and responsibilities

The Charter assigned to Council under Section 8 of the NSW Local Government Act 1993 and its subsequent amendment, is as follows:

- to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively;
- to exercise community leadership;
- to exercise its functions in a manner that is consistent with and actively promotes the principles of cultural diversity;
- to promote and to provide and plan for the needs of children;
- to properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible in a manner that is consistent with and promotes the principles of ecologically sustainable development;
- to have regard to the long term and cumulative effects of its decisions;
- to bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible;
- to facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government;
- to raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants;
- to keep the local community and the State Government (and through it, the wider community) informed about its activities;
- to ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected;
- to be a responsible employer.

The charter had the effect of formally broadening the role and responsibilities of Local government and in itself was a progressive piece of legislation. Hornsby Shire Council takes these responsibilities very seriously indeed. However, the Charter was also the foundation on which the State government has progressively transferred its responsibilities to Local government as detailed below. While this "contemporary" level of responsibility was conferred on Local government, the funding capacity to fulfil its expanded role was not. In fact, the rate pegging approach adopted by the State

government in the late 1970's was left intact on the specious policy argument that this was politically popular. In essence, the State government has entrusted Local government to carry out duties for which it, the State government, is constitutionally responsible yet it cannot trust Local government to seek the resources from the community to fulfil these responsibilities. This despite the fact that Local government is equally answerable to the electorate through the democratic process as are the State and Federal governments.

Some of the specific transfers referred to above are as follow:

Direct Shifting of Responsibilities

Protection of the Environment (Control of Burning) Regulation 2000

This legislation allows residents to burn off provided they obtain written approval from Council (free of charge). Prior to this, burn off was generally prohibited. Since August 2001, 342 applications have been received by HSC at an effective incremental cost of \$23K and rising.

Local Government (Approvals) Regulations 1993

A requirement was introduced in September 1998 that residents who own an existing onsite sewage management system obtain approval from Council to operate that system. Community pressure forced Council to abolish specific fees for this service after their initial introduction, the argument prevailing that the broader community should shoulder a cost to remediate practices that had previously been tolerated over a long period throughout the State. The cost of administering the scheme for HSC is about \$250K per annum.

Food Safety Standards

All food shop premises were required to notify Council of their operations under State regulations introduced in February 2002. Council is required to enter the information on a NSW Health database. A once off grant of \$15K has been provided for establishment of the service with a fee cap of \$55 set per notification. Further evaluation is required to determine if this is adequate to cover all costs involved.

Companion Animals Act 1998

Residents are by this legislation required to arrange micro chipping of their dog, with lifetime registration. In this case, Council has been able to obtain sufficient income to cover all costs associated with these legislative requirements and has been able to provide off-leash areas and increased animal control. This has resulted in improved companion animal management in the local community.

Stormwater Management

Under a recent direction of the Environment Protection Authority (EPA), NSW councils were instructed to prepare stormwater management plans (SMP's) and were also threatened with the possibility of these plans becoming the basis of a licensing system with which to control stormwater quality across NSW.

These SMP's have enormous implications for resourcing as stormwater quality works were not hitherto seen to be a priority for local government. HSC is currently committing about \$1 million per annum for construction of stormwater quality works. While HSC was able to gain approval for a special rate (the Catchments Remediation Rate) for these purposes from the State government in 1994 and an increase in the rate in 1997, the guidelines governing special rate increases now make it more, not less, difficult for NSW local government to seek relief from rate pegging for these purposes.

Estuary/Coastal Management

Again, there has been a considerable devolution of coastal management to NSW local government from agencies such as the Department of Land and Water Conservation (DL&WC) with requirements to consider regional and State wide management policies in all of Council's decision making processes. The cost of resourcing HSC's Estuary Management Program alone is in the order of \$100K, none of which is recoverable.

Environmental Monitoring

Over recent years, the responsibility for monitoring both ecosystem health and recreational water quality has been relinquished by the EPA, with local government left to fill the void. HSC's current water quality monitoring program (perhaps one of if not the most extensive in Australian local government) costs in the order of \$100K to \$200K per annum. The implicit extension to recreational water quality monitoring will greatly escalate this cost.

Abolition of Waste Boards

With the removal of waste boards in 2001 and the introduction of Resource NSW a number of support functions have ceased to exist. While Resource NSW has not yet completed its strategy, it has been made reasonably clear that many of the educational projects instigated and run by the waste boards will cease and become the responsibility of Local government. Likewise, the burden of reducing waste to landfill for commercial waste streams receives virtually no funding from the State government. Councils either incur this cost or programmes are not progressed.

Associated costs include waste education events, school education support and general community promotion and education. Effectively, \$60K per annum of cost has been transferred within HSC's \$175K waste education program.

While grants for waste initiatives are still available, the criteria for application are becoming increasingly restrictive.

Waste Disposal

Local government has been charged with the responsibility for waste reduction. However, there has been virtually no investment by the State government on the infrastructure to handle reprocessing or collection. The waste levy on ratepayers is escalating as a disincentive to direct waste to landfill. As the collection agency, councils receive only a minor percentage of the levy.

Planning Responsibilities

The following responsibilities have been passed from State to Local government in NSW in the last decade.

- Licensing of places of public entertainment under the Local Government Act;
- Surveillance of scheduled premises under the Protection of the Environment Operations Act;
- Inspection of essential services under the Environmental Planning and Assessment Act;
- Collection of building insurance and long service levies;
- Collection of Sydney Water fees;
- Referral and processing of development applications for integrated development which require State government licences; and
- Prescription of development application fees that do not permit full cost recovery.

The net cost of fulfilling these responsibilities for HSC is conservatively estimated at \$250K per annum. Council is precluded from full cost recovery by State legislation which prescribes fees for service.

Shifting of Approvals Assessment

The State government has divested itself of many of its responsibilities associated with the approval process and utilises local government as an agency for its services. These services would otherwise be rendered by the Department of Industrial Relations and Technology, Sydney Water, New South Wales Fire Brigades, EPA and those other public authorities whose concurrence and licensing requirements are pre-conditions to the issue of development approvals. These include DL&WC, the Rural Fire Service (RFS), NSW Fisheries, the Roads and Traffic Authority (RTA) and other bodies.

While administrative efficiency is improved by Local government acting as a single point of contact for government functions, there is a lack of recognition at the State level of the consequent resource burden on Local government.

The recent IPART inquiry into fees and charges by Local government for approval determined that full cost recovery should not be levied because of the social benefits to be derived from development. However, HSC along with other NSW councils, has had to absorb these costs rather than passing them on to the community.

Planning for Bushfire Protection Guidelines 2002

The new legislation currently being introduced in NSW contains considerable cost and liability issues for HSC particularly and NSW councils generally. In particular, we will be obliged to identify block bushfire prone areas which will require a major ground truthing project to be initiated and maintained without financial assistance being offered. The draft legislation also places a requirement on the RFS to turn around what will be a greatly increased influx of development applications in a tight timeframe. We question

whether the RFS will have the ability to deliver. The failure to deliver will reflect adversely on councils in the general community.

Fire Brigades Levy

The Fire Brigades Levy on Local government imposed by the State government has been escalating in recent years greatly in excess of rate pegging. No transparent accountability or consultation occurs in this process, nor is any account taken of HSC's considerable contribution to fire protection in the Shire through its Service Level Agreement with the RFS.

The following table demonstrates the relative impact of increases in the NSW Fire Brigades Levy over the past eight years.

Year	Levy \$	Levy Inc \$	Change %	Pegged Rate Inc %	Rate Revenue Incl Growth \$'000	NSWFB Levy / Rate Revenue %
1994/1995	621,726		4.9	0	29,870	2.1
1995/1996	774,051	152,325	24.5	2.2	31,193	2.5
1996/1997	825,714	51,663	6.6	2.7	32,351	2.6
1997/1998	868,981	43,267	5.2	3.1	33,618	2.6
1998/1999	992,492	123,511	14.2	1.7	34,738	2.9
1999/2000	1,052,953	60,461	6.7	2.4	35,885	2.9
2000/2001	1,090,997	38,044	3.6	2.7	37,027	2.9
2001/2002	1,163,703	72,706	6.1	2.8	38,270	3.0
2002/2003	1,318,475	154,772	13.3	3.3	39,533	3.3

HSC rate revenue has increased by 32.3% between 1994/95 and 2002/03 while the NSW Fire Brigades Levy imposed on HSC has increased by 112.1% in the same period.

If the levy had grown in line with HSC's rate revenue, the charge in 2002/03 would be \$822,540. This is \$495,935 less than the current impost.

Further, HSC's Net Operating and Capital Result for the Fire Control Group, which supports the Rural Fire Service through a Service Level Agreement, was a net expenditure of \$576,659 in 2001/02.

Funding for Recreational Facilities

As there is no regular Federal funding for recreational facilities and limited State funding, the burden at the regional and local levels falls upon Local government.

Use by Schools of Council Facilities

Currently, in Hornsby Shire this use is either free or heavily subsidised by HSC but the situation is a matter of HSC rather than State government policy. In the case of

Carlingford High School, HSC undertakes the maintenance of the school's sports grounds for weekend use. The school successfully lobbied against ending this arrangement in 1999.

Community Safety

HSC is expected to assume increased responsibilities in respect to community safety that were formerly the responsibility of the Police Service or simply was not required. Resourcing of the community safety committee, provision of CCTV surveillance or in contributions to a security patrol are examples of additional cost HSC is being required to accept.

Graffiti Management

This has become, even on private property, part of HSC's responsibility. Although HSC has received some grant funding from the State government to seed this activity and may recover costs from private property owners, when the grant funding expires there will be pressure to continue the service at an additional cost to HSC.

Emergency Management

The State Emergency and Rescue Management Act obligates HSC to provide a significantly higher standard of response to local emergency management than was previously the case. This must be resourced.

Local government plays a vital role in emergency management. Councils are expected to undertake all cleanup work. Between November 2001 and February 2002, three storms were declared natural disasters in the Shire and HSC was directed to undertake the cleanup work. While the State government makes the claim that it reimburses all costs, this has not been HSC's experience. HSC is having difficulty recovering payment for approximately \$500K of costs incurred. The State disputes issues related to whether private or public property is involved, whether refuse was genuinely storm generated or not and refuses to pay staff time, even though staff have been diverted from other programs to provide assistance. In addition, no concession is made by the State for the Section 88 waste levy to be waived for the disposal of storm damage material or for any other costs in disposal of this material to landfill sites in which the State government has an interest.

Road Safety

These programs have traditionally been the responsibility of the RTA. Councils have been pressured to adopt programs with 50% funding from the RTA. A recent attempt by the RTA to withdraw from funding resulted in a number of councils ceasing to support the program. The RTA subsequently agreed to resume funding. However, it appears that HSC will need to continue 50% funding and there is no guarantee of future funding continuity from the RTA.

Driver Education

The RTA developed a pilot program to encourage new drivers to undertake a computerised sample test to support their ability to undertake the theoretical component of their test to obtain a licence. A number of council libraries, including HSC, received the software and a computer to allow this to happen. The computers have had to be replaced at Local government expense. The software is available on the Web and RTA customers are referred to the local library to access the test. No subsequent funds have been offered to support this service.

Maintenance of Regulatory Signs and Markings

The RTA has put pressure on councils to accept responsibility for the maintenance of regulatory signs and markings, claiming that such functions have been placed on councils pursuant to the Roads Act. In many cases, the budget provided is insufficient for the work required.

B Double Routes

Assessment procedures introduced in 2000 require councils to assess applications in accordance with RTA requirements. Prior to 2000, the RTA undertook such assessments.

Other Road Related Regulatory Actions

The RTA has delegated certain regulatory functions to councils. While councils retain the fine revenue, these functions must be adequately implemented and resourced.

Telecommunications

The introduction of additional telecommunications carriers through Federal legislation has resulted in additional cost to HSC when plant needs to be moved as a result of HSC roadworks.

Road Design Standards

Higher standards of design are now expected of councils. This results in increased cost in the provision of roadworks and associated infrastructure. As an example, a requirement to provide for cycleways increases the costs of each project.

Flood Mitigation

Flood mitigation government funding was traditionally provided in the ratio Federal (2), State (2) and Local (1). Recent funding changes increase the burden on Local government by requiring equal contributions from each party.

Privatisation/Corporatisation Issues

The corporatisation and/or privatisation of public utility authorities (State and Federal) has considerably increased cost to councils. These authorities now take great care to ensure that all cost associated with council works are reimbursed by councils. In many cases, up front payments are now demanded. This contrasts with the previous situation where local arrangements were able to be entered into in a more cooperative and less commercially contractual environment.

In 2001, Environment Australia (the Federal government department for the environment) published its report "*Headline Sustainability Indicators for Australia*". The report underlines the fact that there are repositories of good information at each level of government in Australia that are not integrated or interconnected. The technology is available that is capable of delivering a seamless transfer of economic, social and environmental data between governments which would lead to better informed decisions in the community and in government. However, the current approach at both the State and Federal levels is to charge for such information when it is sought rather than proactively support and fund the integration process. This is a false interpretation of commercialisation in public administration and programming and does not serve the greater public good.

In contrast, the United Kingdom government has earmarked \$1 billion¹ to support local councils to achieve integrated information technology targets by 2005 as part of its E-government programme. The vision in the UK is to achieve the electronic delivery of all government services by 2005. Australian governments generally run the risk of falling behind in the modernisation of national information management.

HSC has been involved in a syndicate of five NSW councils over the past two years in seeking a best practice solution to information technology (IT) integration at the local government level for the next decade. It is clear that such solutions are available, but their adoption involves a major cost hurdle for councils. HSC, for its part, anticipates a very substantial increase in its IT costs. Without the active support and assistance of Federal and State governments, it is difficult to justify a major cost increase of this kind to local communities.

Substantial as this incremental cost is, it represents only a portion of the estimated cost shifting HSC has borne from other levels of government (primarily the State government) over the past decade.

¹ Source: '*Councils and E-Government Report 2002*' UK Audit Commission

Goods and Services Tax (GST)

Although the GST is Federal legislation, the State government is the direct beneficiary of the tax revenue generated. Local government has become effectively a tax collection agency without any recognition in terms of financial support from either tier of government. The implementation costs for HSC were about \$200K. Ongoing costs in staff time and systems support are about \$40K per annum. An additional impost has also been placed on community volunteers in dealing with GST accounting, which together with public liability and occupational health and safety requirements, contributes to community members being discouraged from volunteer programs.

Indirect Shifting of Responsibilities

Reliance on the Public Library System

University (Federally funded) and TAFE (State funded) libraries have suffered a decline in the real funds available to them for resources over the last decade. This in turn means greater demands on the resources held in council funded public libraries.

School students represent a large proportion of public library users after 3:30 pm each day and at the weekends. The education curriculum increasingly places emphasis on resource based learning so more and more assignments require students to retrieve information from a range of resources. School library collections are available to students in school hours but the State government has not provided funds to open school libraries outside these hours. Hence usage of resources in public libraries to support educational programs has increased steadily with no corresponding funding from the State government to support this additional use.

Universities and TAFE have offered courses in distance education or open learning programs. TAFE libraries received additional funding to support open learning students but no funds have been made available to public libraries which also provide significant support to community members undertaking this type of study. Current educational initiatives in both sectors have greatly increased the number of student studying by distance education.

The Federal government's migration program has meant that public libraries are meeting the information needs of people who require resources in languages other than English. Hornsby Library, for example, has established a Chinese language collection for the Chinese community in the Shire who currently comprise 15% of the residents. The Library has also had booklets giving information about library services translated into five languages to assist new arrivals in their use of the Library. These services are required as a direct result of a Federal government policy but are entirely funded by Local government.

At this stage, the cost shifting of recent years cited above is conservatively estimated to have cost HSC in the order of \$4 million per annum. It is important to emphasise that our issue is not with the transfers of responsibility per se. HSC has proven that it is competent to take on a larger and more integrated role in public administration and the provision of government services. Our concern is that the processes initiated at both State and Federal levels are often uncoordinated at those levels and frequently do not take Local government on as a genuine partner in forward planning and implementation. Nor are resourcing issues adequately addressed, in whole or in part.

It is worth reflecting for a moment on the Minister's letter dated 14th June 2002 to Local government Mayors when announcing the current inquiry. Local governments are

already playing a greater role in the provision of services direct to their communities but are not receiving due recognition for doing so.

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.

Rate Revenue

The main source of HSC funding is its rate revenue. In the 2002/03 budget year, rate revenue represents 68.6% of total revenue¹, a proportion that has risen significantly from 52% in 1999/2000 as other sources of income, including interest, grants from other levels of government, contributions and donations have diminished in relative significance.

Rate revenue is governed by the State government policy on rate pegging, which has been in place for over twenty years and which, we understand, has the support of the major political parties in NSW. Rate pegging operates to cap the increase in total rate revenue that a council can levy and is reviewed annually by the Minister for Local Government. A permissible percentage increase applies State wide. If a council wishes to seek a special rate increase over and above this limit, the process involves restrictive criteria and Ministerial approval or rejection following public exhibition, all within a limited time frame.

Over the past seven years, rate pegging has been broadly in line with the Consumer Price Index (CPI) plus a small overall premium. The year-to-year differentials are, however, quite variable. The last three years have seen the rate peg fall significantly below the CPI increases.

These points are demonstrated in the following table.

*Note:*¹ See the attached table of all HSC Principal Activities. 'Rate revenue' equates to Rates & Charges; 'Total revenue' equates to Total Operating Income plus Grants-Capital.

TABLE 1

Year	Consumer Price Index increase, weighted average eight capital cities	NSW Rates General Increase	Difference
1995/96	3.1%	2.2%	-0.9%
1996/97	0.3%	2.7%	+2.4%
1997/98	0.7%	3.1%	+2.4%
1998/99	1.1%	1.7%	+0.6%
1999/2000	3.2%	2.4%	-0.8%
2000/01	6.0%	2.7%	-3.3%
2000/02	2.8%	2.8%	Nil
Movement: June 1995 – June 2002	18.4%	22.9%	+4.5%
Movement June 1999 – June 2002	12.5%	8.1%	-4.4%

Note: Ministerial decisions on the limit are generally announced in March-April of the preceding year and councils are required to finalise their budget by June. There is no strict timetable for the ministerial decision and announcement.

The major problems with this approach are:

- The cost structure of Local government in NSW is not closely allied to the Consumer Price Index, which derives from a monitor of retail prices for a basket of household goods and services;
- There is no consultation prior to the ministerial decision;
- There is some indication in this table that the cycle of decision making by the Minister is influenced by the State political and electoral cycle; and
- No account is taken of the range of different circumstances acting upon local councils, small or large, urban, regional or rural.

These problems need to be seriously and constructively addressed if a form of rate pegging is to continue.

Financial Assistance Grant (FAG)

The federally-funded FAG allocated to HSC in 2002/03 constitutes 4% of total revenue. HSC is placed on the minimum grant on the basis that the Shire's property values and other indicators provide greater revenue raising capacity than other, more "disadvantaged" areas. However, NSW rate pegging ensures that this theoretic capacity is not available for HSC to access.

Other Grants and Subsidies

Other grants and subsidies from other levels of government constitute approximately 6% of total revenue and have been reasonably stable overall in recent years. Grants for environmental work have grown while other areas have diminished. Many grants in this area are of an “opportunity” nature. Since 1996, HSC has had a success rate of 59% in value of grants applied for and currently three out of four grants applied for are secured.

Other Sources

Increasingly, HSC has had to look to sale of assets or specific property revenue opportunities (e.g. sale of commercial air rights) to supplement a shrinking traditional revenue base in order to provide the facilities required by the community.

In 2002/03, asset sales are anticipated to equate to 2.9% of total revenue. Such opportunities do not constitute a reliable funding base over the long term. At the same time, the HSC maintenance burden is escalating at a faster rate than the major component of income (rates revenue). The current approaches of both the Federal and State governments towards Local government funding do not recognise these realities.

It has not been HSC’s experience that financial support from *either* the State or Federal governments has improved over recent years in relation to our total funding requirements.

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.

HSC has already, along with many of its counterparts in NSW Local government, taken on an enhanced role over the past decade, in particular. However, the funding structures to enable this role have been inadequate, inconsistent and poorly planned. In our view, what is needed is:

- a) A genuine partnership between State and Local Government which enables joint investigation, planning and implementation of enhanced responsibilities for local government and is consistently followed by all State government departments and agencies;
- b) A regional structure that is developed through the PlanFirst process i.e. there is *one* (not several) regional structure in NSW whereby State and Local government collaborate on the provision of governance and services to the community; and

- c) The Federal government cooperates with and supports this structure and its associated processes.

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.

These issues have been dealt with at some length and in some detail above. However, if rate pegging is to continue, it needs to be responsive to the funding issues being faced by individual councils and pursued in a spirit of genuine partnership.

At the Federal level, a process should be pursued whereby a portion of GST revenue is distributed to Local government directly based on a per capita allocation and at a rate aligned to the categories defined in the Australian Classification of Local Governments. Clearly, this would need to be significant in total revenue terms to be worthwhile.

National Competition Policy dividends should also be distributed by the Federal government on the basis of a guaranteed portion being directed to Local government.

If these reforms were implemented, it may then be possible to treat the FAG more clearly and directly as a support mechanism for genuinely disadvantaged areas.

The outcome would be to enhance the reliable base for Local Government funding.

5. The scope for achieving rationalisation of the roles and responsibilities between levels of government, better use of resources and better quality services to local communities.

Speaking from HSC's perspective, the key strengths of local government in this regard are threefold:

1. Local government is more efficient in delivering public services and infrastructure on the ground than other levels of government;
2. Local government is able to work more effectively with the community in planning, delivering, maintaining and improving services and facilities; and
3. Local government can integrate the delivery of projects and services between diverse disciplines more effectively if it has the appropriate internal corporate values, structures, systems and programs in place.

In the longer run and with an integrated approach towards technological and systems support, Local government has the potential to provide the first point of contact for all government services in its locality. Such an outcome would surely be welcomed by a

community that generally believes it is over governed and often cannot understand the demarcations that exist between the different tiers of government.

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 sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

No further comment is submitted on the first matter in this submission.

With regard to the stricture on budget impact for the Federal government, we regard this as quite inappropriate if the purpose of the inquiry is to comprehensively and objectively examine cost shifting impacts on Local government in Australia.

Attachment: Extract from HSC Management Plan - 2002/03 Budget (1 Page)

Tuesday, 20 August 2002

2002/03 BUDGET

All Principal Activities

	Total Year	Total Year	Total Year
	2002/03 Budget	2001/02 Revised Budget	2001/02 Original Budget
Employee Costs	33,371,985	31,072,598	32,679,587
Contractors	15,447,573	14,160,037	14,220,437
Materials	2,025,465	2,870,746	2,282,862
Financial	3,009,612	3,480,000	3,509,000
Services	15,936,178	16,334,906	16,451,840
Maintenance	9,842,600	10,747,633	8,543,400
Direct Expense	79,633,413	78,665,919	77,687,125
Indirect Expense	-11,226,440	-11,011,222	-10,998,302
Total Operating Expense	68,406,973	67,654,697	66,688,823
Rates & Charges	-53,918,336	-51,644,000	-51,644,000
Interest	-1,686,642	-1,360,000	-1,525,000
Sales	-500,500	-581,400	-586,400
Fees	-12,950,836	-12,684,160	-12,022,240
Grants	-6,737,644	-7,058,000	-7,147,500
Contributions & Donations	-1,347,500	-1,979,443	-751,900
Total Operating Income	-77,141,458	-75,307,002	-73,677,039
Net Operating Result	-8,734,484	-7,652,305	-6,988,216
Capital Acquisition	20,819,940	23,333,069	18,070,555
Capital Works	4,952,000	1,961,000	1,940,000
Total Capital Expenditure	25,771,940	25,294,069	20,010,555
Grants-Capital	-1,508,500	-2,069,000	-1,655,000
Capital Sales	-3,900,000	-3,750,000	-1,800,000
Total Capital Income	-5,408,500	-5,819,000	-3,455,000
Net Capital Result	20,363,440	19,475,069	16,555,555
Net Operating & Capital Result	11,628,956	11,822,764	9,567,339
Asset Sales	-2,283,000	-538,000	-805,000
External Loan	-1,000,000	-1,000,000	-1,000,000
Restricted Assets - S94	-5,837,268	-6,509,935	-7,217,000
Restricted Assets - CRR	-64,161	-401,000	-79,000
Restricted Assets- Other	-3,104,069	-2,450,202	92,297
Internal Loan/Other	160,000	-1,111,759	-598,779
Funding Total	-12,128,498	-12,010,896	-9,607,482
Net Operating & Capital Result After Internal Funding Movements	-499,542	-188,132	-40,143

2001/02 Revised Budget is at the March Quarterly Budget Review