

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: ..... 391 .....

Date Received: ..... 2/6/03 .....

Secretary: .....



### **Submission to the Standing Committee on Economics, Finance and Public Administration**

We are pleased to make this further submission in response to the Committee's discussion paper "At the Crossroads".

#### Roles and Responsibilities

We are one of those councils who have experienced a significant increase in our roles and responsibilities in recent times. We would argue that the increase in our roles and responsibilities has been in response to the needs of our community, either:

- in response to lack of adequate service provision by the State or Commonwealth governments, or
- in response to market failure in the sense that we are providing services that in more robust local economies would probably be provided by the private sector, or
- in response to increasingly onerous legislative requirements and/or growing community expectations.

The new Local Government Acts of the 1990s have given considerable scope to councils to expand their roles and responsibilities. In the circumstances, this has been a good thing in our region because it has enabled councils to respond more effectively to the needs of their communities. If the local government package of roles and responsibilities is changing significantly, we suggest that is because we are actively looking for better ways of filling the gaps in service provision.

In considering the division of roles and responsibilities between State and local governments, we do not believe that an Australia-wide (or even a state-wide) solution will be capable of achieving optimum outcomes. Resources will be most efficiently allocated and services will be optimised when the issue of service delivery is addressed on a region-by-region, case-by-case basis.

For example, State governments are generally responsible for the provision of primary and secondary education services (as well as for their regulation). This system (of State service provision) may work adequately in many areas; however, it is common ground among the local governments of this regions that the education delivery in our communities inadequate and is merely entrenching the educational disadvantages suffered by Aboriginal people in particular but also by non-aboriginal people in these communities. For this reason, education has been identified as a top priority for the

proposed Murchison Voluntary Regional Organisation of Councils. In order to adequately address the educational disadvantage of Aboriginal people that is identified in the Annual Report on Local Government<sup>1</sup>, it is becoming necessary for the local governments to intervene. If the State cannot provide an adequate level of education in our remote communities, it should transfer its expenditure on education in our region to the local governments and let us address the problem.

In some instances, a remote local government can provide services more efficiently than they can be provided by state and federal governments. For example, the Shire of Yalgoo owns a number of dwellings within the town that have traditionally been used for staff housing. The WA Department of Housing also owns dwellings within the town. There are no building maintenance trades available within Yalgoo - all trades must travel from other centres and this typically involves about 450 kilometres of travel (round trip). It appears to us that it would be more efficient for the Shire to manage all the housing maintenance within Yalgoo as we are able to save mobilisation costs by engaging the same trades-persons to work on both Shire housing and state-owned housing. Previously, the State has sent different tradesmen to Yalgoo and this unnecessarily duplicates travel expenses. The Shire also has the most local knowledge about the houses and the type of trades required. This enables us to avoid errors like sending an electrician from Geraldton to fix a gas hot water system.

Because our experience is that many services can not be effectively delivered in our remote region by the Commonwealth and State governments, we believe that the best approach to the phenomenon known as cost shifting is not to limit the roles and responsibilities of local government but to ensure that local governments are adequately funded to meet their increasing roles and responsibilities.

Your Committee has asked whether there should be greater differentiation of responsibilities between larger, better resource councils and those with small populations and limited revenue. This differentiation is already occurring as the small councils are called upon to fill more and more gaps in service provision. We believe the decision of a small council to enter a new area of service provision is more likely to be driven by need than by mere policy choice as is often the case in larger regional and metropolitan local governments.

Of course, larger local governments are also moving into new areas of service provision. But these are different areas of service provision to those new areas of service provision that the small remote local governments are moving into (and this provides the differentiation). Small remote local governments are moving into providing services that, in the cities, would be provided by others.

Regrettably, the efforts of the smaller councils are undermined by the present minimum grant provisions of the Local Government (Financial Assistance) Act, because many millions of dollars of FAG funding go to large councils that (according to the Local Government Grants Commission's calculations) do not need financial assistance. This money could be more effectively used in alleviating the disadvantages experienced by remote rural communities.

---

<sup>1</sup> National Office of Local Government, *2000-01 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, Department of Transport and Regional Services, Canberra ACT, p.92.

### Structural Reform and Regional Cooperation

In our region, the local governments are presently in the process of forming a voluntary regional organisation of councils to improve regional cooperation, facilitate resource sharing and improve efficiency. We do not believe that the forced amalgamation of councils would result in increased efficiencies; in fact, from the analysis that we have undertaken, it is more likely to result in diseconomies. It would also result in the death of our communities as it is only through the efforts of the local governments that any reasonable level of services at all is maintained. None of the small towns of this region would be viable without its local government.

It is hoped that, through the proposed Murchison VROC, the local governments of this region will improve our collective relationship with the State agencies. In fact, the local governments are keen, through the VROC, to negotiate a regional agreement with the State government that would cover issues such as service provision.

In many instances, the state has not provided adequate services and in other instances the services may be adequate but the local governments could provide them more efficiently and/or effectively. Our proposed solution to cost shifting is to demonstrate the cost savings that could be made by transferring the provision of a service from state to local government and to seek an adequate transfer of funding to cover the cost of providing this service. Such arrangements would provide a win-win solution both for the State (which would save costs) and for the local communities (which would obtain better services).

We believe that a regional approach (coordinated by the VROC) will be better able to deal with complex problems that require coordinated interventions by a multiplicity of State and/or Commonwealth departments and agencies. Traditional bureaucratic structures relying on advanced divisions of labour, issue-specific departments and hierarchical lines of authority and accountability make it difficult for individual local governments to get an adequate response to such complex problems.

Inevitably, the proposed Murchison VROC will have to be financed by the member local governments, from their already meagre resources. This may prove to be a significant obstacle to its establishment. Once it is up and running and achieving some positive outcomes, we believe that even the most sceptical local councillors will appreciate the value of the investment; however, some kind of establishment grants would be helpful in facilitating the establishment of VROCs or similar regional organisations.

A properly resourced VROC could certainly be used to promote cooperation between governments and to generate commitment to regional initiatives. We therefore favour Option 6 as presented on p. 33 of the Committee's discussion paper.

### Funding of Local Governments

Certainly, the local governments of this Murchison region face continual financial stringency. This stringency in turn leads to a number of community needs going unmet. The best type of financial assistance that we can have adds to our general-

purpose revenue because the general-purpose revenue (in contrast to specific purpose grants) allows us to prioritise the community needs and respond to them in an effective and efficient manner. In other words, general purpose revenue leads to greater allocative efficiency with regard to scarce public resources.

For this reason, our preference would be to examine and simplify the complex matrix of untied and specified-purpose funding that binds us to the State and Commonwealth governments. To do this, the issue known as "vertical fiscal imbalance" needs to be firmly on the national political agenda.

With regard to the options presented in chapter four of the discussion paper, we are certainly opposed to the delivery of FAGS as tied grants. For reasons already mentioned in this submission, general purpose revenue is the most useful sort of revenue to local governments as they are free to spend it on local priorities and in ways that best meet local needs. Tied grants, even along the lines of the Roads to Recovery model, inevitably throw up various difficulties. For example, it is a requirement under the Roads to Recovery program that council's road expenditure exceed the expenditure from the pre-Roads to Recovery period. While this is quite reasonable, it is noted that the West Australian Government is cutting its state road funding to local governments. This obviously makes it very difficult for councils to maintain their road building activities at the same level, when the state government funding for local roads is reducing.