



Pittwater Council

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24 July 2002

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

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:	55
Date Received:	25/7/02
Secretary:	Burdell

Dear Secretary,

Re: Pittwater Council's Submission to the Inquiry into Local Government and Cost Shifting.

Council's submission addresses all terms of reference and in doing so will indicate services that are being slowly shifted to Local Government with little or no financial support. This approach has been taken to give a rounded viewpoint of the obstacles Local Government face.

Council's submission will address:

- The Committees "terms of reference", incorporating
- Services that have been shifted from the State to Local Government, and
- Restrictions placed on Council revenue sources

It is hoped that Pittwater Council's submission to the Committee will give insight into the pressures that local Government face in their operations.

For further information concerning Council's submission please contact Mark Jones, Council's Finance Manager on 9970 1121.

Yours faithfully

Patricia Giles
MAYOR



SUBMISSION BY PITTWATER COUNCIL

TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

INQUIRY INTO THE COST SHIFTING ONTO LOCAL GOVERNMENT BY STATE GOVERNMENT AND THE FINANCIAL POSITION OF COUNCIL

Introduction

Pittwater Council's submission concerning the cost shifting onto Local Government by State Government and the financial position of Council, will aim to provide useful information and insight into the Council's structure, increasing expenditure commitments, pressures of resourcing, restrictions on revenue streams and obstacles that Local Government face. It acknowledges Council's role as a tier of Government in the provision of community services and recognises that although the State Government offers some financial assistance through way of Grants, it is not nearly enough to satisfy the growing pressures on this level of Government. Accordingly, this inadequate level of State funding support and their lack of willingness to assist Council in legislative change that would help Council's plight demonstrates the lack of understanding by the State of community needs.

Pittwater Profile

Population size: 56,077
Ratepayers: 22,244
Geographic size: 125 square kilometres (including 18 square kilometres of waterways)
Location: 26 kilometres north of Sydney Central Business District
Development: A range of large open properties, light industrial and medium density housing

1. Local Government's current roles and responsibilities.

Pittwater Council's role and responsibility can be best summarised by its Vision Statement, *"To be leaders in the provision of Local Government Services, to strive to conserve, protect and enhance the natural and built environment of Pittwater and to improve the quality of life for our community and for future generations"*.

Based on customer surveys, Council has developed a strategic focus on six primary Local Government Service issues, which are:

1. Infrastructure (eg roads and footpaths)
 2. Environment (eg trees and bushland)
 3. Waterways (eg management of beaches, sewage and pollution)
 4. Waste (eg waste reduction and recycling)
 5. Buildings (eg controls on size and development)
 6. Community services (eg library and recreational facilities)
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In the pursuit of providing the above broad categories of community services, Council outlines its role or prime directive (as stipulated in Council's Management Plan 2002-2007) as "to properly manage, develop, protect, restore, enhance and conserve the local government area with the income derived from the fair imposition of rates, charges and fees, with income earned from property investments and, when appropriate, with grants and loans".

Further to this, Council also sees its responsibility or commitment (as stipulated in Council's Management Plan 2002-2007) as, "to our community, to work for our residents and ratepayers, to consult with them in the formulation of policy and provision of Council services, to facilitate and foster where possible the community's own desire to help itself".

The above are summations of the roles and responsibilities that Council strives to address on an annual basis. As a part of the ongoing review and reporting process of Local Government, under Section 403 and 404 of the Local Government Act, 1993, Council must prepare a Management Plan that sets out the works and activities of Council over the next and future years.

Accordingly, to further outline in detail Council's principal activities, role within the community, revenue policy and budgets, performance targets, capital works program, major expenditures, forecast loan borrowings, fees and charges and structure etc, Council has enclosed a copy of Council's 2002-2007 Management Plan for your information as Appendix 1. To best understand the current roles and responsibilities of Council and Local Government as a whole the Management Plan should be used as the guiding reference document.

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.

For the year ended 30 June 2001 Pittwater Council's funding arrangements were as follows:

Type of Funding	Revenue \$ 000	% of Revenue Type over Total Annual Revenue
Grants (State and Federal)	3,912	9%
Developer & Other Contributions	3,022	7%
Rates & Annual Charges	25,721	59%
User Charges & Fees	7,601	17%
Interest Income	1,004	2%
Other (Incl. Asset Sales, Fines, Joint Ventures etc)	2,501	6%
Total Revenue	43,761	
<i>Note: Data source 2001 Statement of Financial Performance</i>		

In addition to the above Council must still facilitate capital expenditure of approximately \$11 million per annum (2000/01) on community assets and infrastructure. As demonstrated in the above table only 9% of Council funding is sourced from other levels of Government. This small percentage of assistance places enormous pressure on Council's rate revenue, the levying of user charges and fees, and the ability of Council to strategically dispose of assets or generate other revenue from business ventures. The sustainability of this methodology is questionable.

In terms of funding for Local Government it has been widely recognised that there is a mismatch between Local Government expenditure responsibilities and their revenue raising powers. This issue of vertical fiscal imbalance, in Council's opinion, is continuing to grow due to rising community pressures, a more litigious society, inflationary pressures and the continual cost shifting by the State on to Local Government.

2.1 - The Commonwealth

The Commonwealth Government recognises the above imbalance and supports Councils by means of the Financial Assistance Grant. Although heavily relied upon each year, the amount of the grant amounts to only approximately 3% of Council's expenses for ordinary operating activities (this excludes capital expenditure). This small percentage demonstrates the Commonwealth's minimal support for Local Government. In further demonstrating the overall inadequacy of grant funding to Council, the Financial Assistance Grant at only 3% of Council's expenses for ordinary activities makes up approximately 30% of Council's total grant funds. This quite clearly demonstrates the need for Pittwater Council to rely on alternative revenue sources to meet the needs of the Community.

In addition to minimal support, the Commonwealth's inability to understand Pittwater Council's uniqueness has also been a point of frustration. In the process of administration of the Financial Assistance Grant the equalisation process that recognises the differences between Local Government Bodies expenditure requirements and their revenue raising capacity, is a contributing factor on the amount of financial assistance a Council receives. In the past, attempts have been made to bring to light certain disabilities that Pittwater Council may face as a coastal authority. Additional expenditures such as coastal management, estuarine management, management of offshore communities and the management of extensive bushland have all been dismissed by the Grants Commission as not warranting consideration for additional funding. Such dismissals, again reiterates the little understanding from other Government Bodies concerning the expenditures associated with Local Government.

The Commonwealth further supports the Pittwater Community with approximately \$600,000 (15% of Councils total grant funding) towards childcare assistance.

2.2 - The State

Currently, grant allocations from various State Funding Bodies make up approximately 55% or \$2.139 Million of Council's funding allocation from other levels of Government. The percentage distribution of the various funding bodies from the State are demonstrated below:

Funding Body	Percentage of State funding over total grant allocations
RTA	10%
Dept Land & Water Conservation	10%
Waterways	2%
Dept Communication, IT & Arts	1%
Dept of Community Services	4%
Local Government Dept (Pensioner Subsidy)	9%
State Library	3%
Environmental Protection Authority	3%
Public Works dept	1%
Dept of Transport	3%
Dept Sport & Recreation	1%
Dept Urban Affairs and Planning	3%
NSW Agriculture	1%
National Heritage Trust	2%
Environmental & Heritage Trust	2%
<i>Note: Above funding allocations are for the year 2000/01</i>	

The allocation of such an amount falls well short of what can be deemed as sufficient funding to adequately assist Council in the provision of its services. To demonstrate this issue, Council for the

year 2000/01 had approximately \$164.8 Million worth of road, bridge and footpath assets. To assist in the maintenance, safe use and development of these infrastructure assets, Council received funding from the associated State Funding Body (RTA) of approximately 0.0023% per annum of the value of these assets.

Accordingly, although Pittwater Council and other Local Government Bodies receive a wide and diverse range of funding from the State Government, in relative terms it is minimalistic compared to what Local Government Bodies require to properly service the community and to maintain assets at levels that will see them utilised to their full and safe potential.

The issue of inadequate funding from the State Government is further discussed in the 4th "term of reference", below.

2.3 - Rate Pegging and User Fees and charges

Rate pegging can be considered as one of the major constraints on Local Government Authorities ability to raise revenue within NSW. As indicated by the Local Government and Shires Association's submission to the review of Local Government (Financial Assistance) Act 1995, in June 2001 the methodology lacks transparency or is subject to political interference as its ultimate determination is subject to cabinet discretion. This form of determination of one of Councils main income streams removes the necessary link between Local Government expenditure and the Council's ability/need to raise revenue.

Over time, the pegged limit of which a Council can raise its rates by has barely tracked against the inflationary CPI figures. The table below indicates these movements:

	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Rate Increase %	1.7%	2.4%	2.7%	2.8%	3.3%
CPI Inflation %	1.1%	3.2%	3.3%	2.5% (Forecast)	1.8% (Forecast)

Data Source: BIS Shrapnel March 2002 – Underlying (Jun on Jun) CPI Inflation Rate.

Cost increases passed onto local government from both the private sector and other government sectors are not necessarily reflected in CPI inflationary movements. The cost of inputs to local government outputs is not in any way correlated.

Other government service providers who levy local government to fund their services do not necessarily face the cost control requirements expected of local government, nor are their processes transparent and accountable to their communities.

The State government should ensure that it fully compensates local government for the levies and fees it requires of local government to fund state government services or provide the mechanism for local government to set its own rating levels to fund government and private sector costs. The abolishment of rate pegging would assist.

User fees and charges are a viable income base for Councils, but again they are also faced with restrictions. Whether it is the inability to charge due to legislative restrictions, protests from other legislated bodies (telecommunication giants), community resistance or the current lack of funds in the pursuit of new innovative ventures, all these restrict Local Government in its drive to self-fund. If Local Government Bodies are to progress, be self-funding and innovative, current restrictions as outlined above must be reduced or removed in order for this to occur.

Pittwater Council, to date has sourced many alternate funding sources in an attempt to be less dependant on rate income. Some are discussed below.

2.4 - Utilisation of alternate funding sources

The need to identify alternative revenue sources to fund both infrastructure projects and council services to the community is an ongoing challenge for each local government authority.

Pittwater Council has generated revenue from a number of commercial avenues to fund its services to the Pittwater community. For example, Council operates the Sydney Lakeside Narrabeen tourist park which provides both long term (residents) and short term (holiday) accommodation. The costs of running such an establishment are significant however with good financial management, this facility provides a much needed return to the community.

These funds are essential given the limitations rate pegging has impacted on Council's revenue raising capacity.

Pittwater Council also generates much needed infrastructure funding utilising Section 94 contribution plans. These plans require developers/property owners to make a fair contribution to community infrastructure that their own profit making developments require Council to provide to the community.

Further to the above, in ascertaining other alternative funding sources the disposing of assets for short term cash injections is not a financial methodology that is utilised by Pittwater Council or should be engaged by any other local government body to finance its recurrent operations. Such a methodology can only be a sound practice after a strategic review of assets is undertaken. Local Government Bodies, as does Pittwater Council should continually analyse their assets to establish those that are under utilised or even unused. Those assets under utilised may be disposed of and proceeds injected into other capital works.

Ultimately, the little government support that local government bodies receive especially from State level hinders Council's ability to adequately service the community's needs, thus forcing Local Government to seek alternate funding arrangements. These alternatives may often be short term and can often be limited by regulations, community resistance and service obligations. Furthermore, and more importantly they do not solve the growing problem of increasing service obligations given to Local Government by the State, restrictions on revenue such as rate pegging that would enable Council to adequately fund such obligations and the continuing growing community expectations on Councils.

3. The capacity of Local Government to meet existing obligations and to take on 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.

Pittwater Council when entering its next budgetary phase of 2002/03 was faced with substantial additional expenditure that was in addition to prior year budgets. These additional expenditure items incorporated some of the following:

- Increased wages and oncosts due to new award criteria
- Rising legal expenditure due to a growing litigious society
- Increased superannuation surcharges
- Increased insurance premium costs
- An increase in the State's NSW Fire Brigade levy of 13.9%
- Capital expenditure requirements on Council assets

Although some items may be considered as one off or were the result of other industry pressures such as the problems within the insurance industry, they are just a part of the growing trend of the

escalation of expenditures in excess of Local Governments ability to adequately raise funds to facilitate current and growing community needs.

Council in establishing its 2002/03 Budget, had to seek appropriate levels of income to produce a balanced consolidated result. Accordingly, as Council's main revenue stream of rates was pegged at an increase of 3.3%, it had to source new fees and charges or increase existing user fees where appropriate to meet most of its increasing expenditure obligations.

Attached to this submission as Appendix 1 is Council's 2002–2007 Management Plan. On pages 9 and 10 is a summary which identifies such expenditure obligations or where the communities dollars are allocated.

The question of developing opportunities at a regional level with other Councils to achieve regional outcomes is a positive step but has its limitations. Currently, like many other Councils, Pittwater Council is a member of a regional Council group called SHOROC. Under this banner, regional initiatives such as transport planning, waste management, sports ground improvements and various regional tender processes are undertaken. When common outcomes are established these regional groups can be of benefit with knowledge transfer, pooling of resources and finances, efficiencies of scale, greater political power etc but beyond common needs they would probably not value-add to any sole Council. Each Council, besides infrequent common initiatives are very unique in their approach to business, obligations to the community, community expectations, locality and demographics, and often it has been these very reasons why a Council is formed in the first place. This factor is certainly demonstrated by Pittwater Council's establishment some 10 years ago to satisfy different community needs and wants within a distinct demographical region.

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.

As a result of restrictions due to the pegging of rate income and limitations on the scope to which Council's can raise revenue through fees and charges, any shift of expenditure onto Local Government will place enormous strain on the capacity of Councils finances to efficiently provide for community needs. In drafting this submission Pittwater Council engaged a review of what services over time have been imposed on Council with insufficient funding support, at mainly a State level. These services are categorised below into *Community, Environmental, Planning, Compliance and Economic* and are now facilitated by Council because of either:

- Changes of responsibilities between levels of Government, or
- The State Government no longer wishing to provide the service and Council as a provider to the community takes on the responsibility.

As a basic starting point, an examination in to who owns the land and as such who should have primary responsibility of managing and funding outcomes was undertaken. As a result of this examination Pittwater Council identified that Council provides a number of services and functions on Crown land of which no formal arrangement with the State Government has been entered into. This matter of tenure is addressed in the categories below, where the following State identified services are now carried out by Council.

4.1 – Community

Bush Fire Management

Historically the main bushfire threat identified in the Pittwater region comes from the National Parks, land owned by the State. As a result Pittwater Council has established approximately 5 Bushfire Brigades around the National Park. Council has to provide much of the funding for fire fighting infrastructure and maintenance of the buildings. Further to this Council also pays an ever

increasing operational contribution to the service. Accordingly, Council is forced to heavily subsidise the State Government for their fire management to the financial detriment of Pittwater ratepayers.

NSW Fire Brigade Levy Contributions

In addition to bushfire management, Council is also forced to contribute to the State Government in excess of \$1 million per annum towards to NSW Fire Brigades. Combine this amount with that of the direct contribution towards bush fire operations and Council is remitting \$1.38 Million or approximately 6% of its rate income to fire management. Local Government Bodies have little say into the operations and levying of the majority of these type of services yet it consumes a large component of Council's rate base. A more equitable arrangement for the provision of fire services to the community has been demanded for many years.

Although Council's rates are pegged to approximately 3%, the increases in fire levies expected to be paid by Council, have far outstripped this amount.

Main and Regional Road Management and Funding

The State Government's Roads and Traffic Authority (RTA) now administer their road network on the basis of a shared arrangement with Councils. The RTA manages the central road pavement from kerb to kerb, from table drains or a metre behind guardrails. Councils have been given management of footway areas. The failure with this methodology is that the road is contingent upon its formation. In steep terrain areas such as Pittwater, the road formation consists of cut and fill embankments that can be unstable. The RTA should be responsible for the full management and funding of this "formation" and its ongoing repair and maintenance, not Council. Furthermore, much of the formation provided with the initial roadworks did not provide sufficient width for footpaths and cyclists. To retrofit this infrastructure, it is a severe cost that the RTA should be responsible for.

Plans of Management for Community Land

The 1993 Local Government Act requires Councils to produce Plans of Management for all of its community land. The intention is admirable however greater flexibility is required. This requirement of the State Government offered no associated funding for development of such plans. Plans of Management are expensive to produce. On average they can cost up to \$50,000 each and as Pittwater has hundreds of reserves, to comprehensively comply with the legislated requirements would be a multi million dollar proposition. Accordingly, State initiatives should come with associated tied funding.

Early Childhood Centres

In the 1960's the State Government and Councils entered into agreements in respect of the management and operation of Early Childhood Health Centres (then known as Baby Health Clinics). These agreements saw Councils pay for much of the running costs of these centres. In recent times most of these running costs have been again taken over by the State Government. Most Councils however are still responsible for the maintenance of the buildings, with a number of Councils being forced to fund at great cost the capital replacement of the buildings as they come to the end of their useful life. This impost on Councils appears to be as a result of the State Governments lack of provisions for replacing their ageing Early Childhood Centres.

Clearly, the replacement and maintenance of Early Childhood Health Centres should be the responsibility of the State Government.

4.2 – Environmental

Coastal and Estuary Management

Pittwater Council's coastline comprises numerous sandy beaches and accompanying rocky headlands. The Pittwater waterway is also a substantial estuarine feature. The majority of this coastline is Crown land and recent investigations of responsibility of such land has indicated that Council may only have a small percentage of this land under its care, control and management. Council is therefore managing State Government land at great expense and furthermore has potential liability exposure, as Council is not the owner nor has any formal arrangement to be managing such land. Council in its current administration of its beaches receives no State funding for maintenance and only receives approximately \$60,000 per annum for improvements on beaches and rock fall protection. This amounts to approximately 4% towards the administration, cleaning, signage, dune management, lifeguard protection, etc of Council's beaches and coastline. Furthermore, most of the grants are on a dollar for dollar basis therefore forcing Council to commit its resources if they wish to receive any such grant funding.

In addition to the above, there is also a requirement for Council to formulate a Coastal Plan of Management and an Estuary Plan of Management, both of which are expensive to produce, and something that the State Government previously would have provided for local government with their in-house expertise.

Wharf Management

The Pittwater Council region contains 27 public wharves, only half of which are required for direct ratepayer needs. Council receives approximately \$30,000 to \$40,000 each year from State Organisations to assist with the improvement of such structures, again no funding is received for maintenance. At any given year Council may spend approximately \$400,000 on wharf maintenance and improvements yet receives only the equivalent of 10% grant funding and no recurrent income that could be associated with wharf operations. In excess of \$2 Million is collected by the State Government each year from the Pittwater waterway from sources surrounding boat operations eg. moorings, boat registration, yet Council receives virtually none of this income. Pittwater Council is again heavily subsidising State Government programs and revenue raising.

Tree Management Associated with Electricity and Telecommunications Infrastructure

Energy and Telecommunications providers have persisted with an aerial supply network rather than the comprehensive undergrounding of their cabling. This has had a dramatic impact on the street environment (street tree butchering) and the reliability of supply of service (frequent outages). The State Government legislated that Councils would fund the cost of tree pruning and lopping to keep vegetation clear of their lines. This should not be a cost on ratepayers but a direct charge by Suppliers on their customers. Again, a State controlled service is being subsidised by Local Government. Pittwater Council has strenuously objected to this transfer of costs. This transfer is artificially keeping supply charges low and is biased against undergrounding.

Noxious Weed Management

The State Government uses Local Government Authorities as a vehicle to manage the Noxious Weed Act requirements. Although some grant funding is offered it does not cover the significant financial burden placed on Councils to administer this legislation.

Flora and Fauna Species Protection Legislation

State and Federal legislation has been significantly strengthened. Council fully supports the intent of this legislation, however, Local Government has become the main vehicle for administering this

legislation. The complexities and resource intensiveness of this function places Local Government with another significant staffing and financial burden.

4.3 – Planning

Flood Risk Management

Flood risk management used to be provided almost exclusively by the State Government by in-house experts. The underlining policy and guiding documents concerning flood risk management are the initiative of the State Government yet the responsibility of policy implementation and enforcement is the burden that has been handed to Councils. In acting upon this process, Council has found the effectiveness and the structure of grant funding allocation to be questionable. Council receives 2/3rds funding for *approved* flood risk management studies which again places financial pressures onto Council as the State are forcing matters of planning control onto Local Government without fully funding their operations. The steps involved in producing a flood risk management plan and policy is expensive with each plan likely to cost in excess of \$300,000. Pittwater has 6 main floodplains hence a \$1.8M requirement, let alone the ongoing management and mitigation works.

Urban Consolidation and Land Release Administration

Council is required to fund the planning process for land release projects that are part of an overall State Government Strategy. Furthermore, Councils are also required to face significant financial exposure as the authority responsible for much of the infrastructure provision. This exposure is due to the inadequacy of Section 94 legislation and lack of up front funding support at a State level. This is exacerbated by the fact that Council development application fees do not cover the full and actual cost of processing. Accordingly, the increase in development applications as a result of State Government initiatives (Land Releases) causes an overall rise in the cost to Council of development application assessment and determination as often an increase in staff are required to meet statutory deadlines.

Inappropriate State Government Planning Policies (eg SEPP 5)

Policies that are initiated by the State government are often inappropriate upon application within the community. These types of policies such as SEPP 5 initiatives cause significant friction in communities often resulting in litigation and high determination costs by Council. Pittwater has incurred significant financial costs in dealing with SEPP 5 issues, particularly legal costs as a consequence of community opposition to new development SEPP 5 proposals. The State government must accept the financial burden it places on State communities with unsatisfactory planning policies.

4.4 - Compliance

Animal Control

The State Companion Animal Register was to be fully funded by fees collected by Local Government Authorities on behalf of the Department of Local Government, then refunded for education and enforcement processes. Over time, Councils in addition to the collection process have assumed all responsibility for data entry, servicing of veterinary practices, customer services and education. The responsibilities given to Local Government by the State have increased yet the percentage return from registration fees to offset these costs have reduced from a proposed 85% to 78%. It is estimated that the cost of providing the full animal control service amounts to approximately \$85,000 per annum where as Council's receives only \$40,000 in collection funds. Again, this leaves Local Government Authorities funding a large differential. The State government should ensure that local government costs are fully reimbursed.

Pollution Control

The Environment Protection Authority (EPA) no longer provides an officer dedicated to the Northern Beaches region for matters of pollution control. Pollution incidents that occur on average twice a week are now referred to Council for initial investigation and report submission to the EPA. This requirement that has been placed on Council is carried out at an estimated cost of approximately \$120.00 each incident.

Fisheries – Rock Shelf Control

The State Government Fisheries Authority have authorised Council officers to assume the responsibility for the supervision of rock shelf areas and inter-tidal protection zones. No funding accompanied this shift of responsibility. The NSW State government should fully fund this transfer of responsibility or take back the responsibility.

Workcover Incidents

The State Government no longer investigates initial claims of matters concerning breaches of the Workcover Act. Council officers complete an initial investigation and report their findings back to Workcover. The State Government depending on circumstances may act thereafter. No funding from the State supports Councils initial investigations. Local government is the unpaid agent of the NSW State government and the ratepayers fund the investigations.

4.5 - Economic

State Government – Cut Backs

The State Government has cut back its staff in a number of its key departments to the extent that they have reduced expertise in many fields. As a result, timeframes for their actions have significantly increased. In particular, the Department of Local Government should be providing strategic assistance for Local Government, constantly looking for ways that Local Government can be provided with access to the necessary tools that would enable them to run their businesses more efficiently. Instead, there is an apparent fixation on amalgamation of Councils where as there should be a focus on reducing duplications by providing strategic advice. This may cover issues such as risk management, new technology, communications and streamlining processes. There would appear to be a direct nexus between the cost shifting to local government and State Government cut backs. The State is showing an artificial saving at the expense of local government because they have not necessarily transferred the funds for these shifts.

Financial Funding Arrangements Between State and Local Government

The State Government has a fixation on funding new capital works. What this does is entice Council's on the guise of gaining generally 50% funding assistance. However, the State Government in many cases is creating additional assets that may not be sustainable by Local Government when the maintenance and upgrade phases are required. Local Government with financial restrictions such as rate pegging and State Government cost shifting, is finding it increasingly difficult to support its current asset base and keep them in a reasonable condition. This has been made more acute by the change towards a more litigious society exposing Local Government even further. These assets have largely been provided by previous generations and through deterioration they (due to lack of recurrent funding) are now a major liability on current and future generations. Funding arrangements with the State Government need to be geared more to sustainable long term outcomes which includes assistance for maintenance of existing infrastructure. Generally, there is only assistance for new assets with an incentive to let existing assets fail rather than be maintained. The State is using the wrong drivers.

Public Liability

The State Government needs to assist in the provision of reasonable indemnification to Local Government to enable Councils to operate effectively within their communities. Councils cannot be expected to continue to operate efficiently within such a litigious society and under an increasing risk of financial uncertainty.

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

It is Pittwater's contention that the term local government is a nonsense.

Councils do not govern their communities, Councils are service providers on behalf of the State government.

There are only two tiers of government in Australia, federal and state.

Local councils cannot make laws, they do not legislate, they do not make regulations, they are creatures of the State.

The State is therefore accountable for all council activities because councils only operate through powers legislated through the State.

Councils make decisions only to the extent they are empowered to do so through State government law and State policies and regulations.

Now returning to the terms of reference.

It would seem that the abolition of State governments and the extraordinary costs of payments to State politicians including superannuation and other payments would be eliminated. The creation of geographic regions administered by local councils and the provision of a range of services to distinct communities would be a better use of resources and provide better quality services to local communities.

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.

Pittwater Council generally is in agreement with most of the findings of the Commonwealth Grants Commission Review and concurs with the submission of the Australian Local Government Association (ALGA) in most respects.

The Review found that current arrangements in the provision of funding from the Financial Assistance Grant provide a minimum level of assistance in an equitable manner. Furthermore, the Review offered a number of recommendations aimed at increasing the transparency of assessment and allocation of funds and found broad agreement from many interested parties, e.g. Councils, ALGA.

Of specific relevance to the current inquiry into cost shifting and the financial ability of Local Government Bodies to service the community, is the Review findings focusing on horizontal equalisation criteria or the leveling of funding allocations based on the differences between each Local Government Body – perceived disadvantages. The Review concluded that these principles were appropriate in concept and were broadly being achieved but recommended that this methodology of funding distribution be amended and allocated on the basis of three separate pools:

- The per capita pool – *funding distribution on a head of population basis*
- The local roads pool - *funding distribution on a relative roads needs*
- The relative need pool - *funding distribution on the relative needs of a Council based on the equalisation process or Council need differentials.*

The current objectives of the Commonwealth's funding allocations are to provide:

- A share of its financial assistance grants to all Local Government Bodies
 - Funding to contribute to the costs faced by Local Government Bodies in maintaining their local roads; and
 - Relatively greater financial assistance to those Local Government Bodies which, because of the greater costs they face in providing services or because of their more limited ability to raise revenue, are relatively more disadvantaged than other Local Government Bodies.
- (Data Source: Commonwealth Grant Commission Review)*

Pittwater Council is of the opinion that the allocation of funding for the Financial Assistance Grant from three separate pools has the potential to clarify allocation calculations, however this separation for grant purposes is irrelevant without a robust or flexible methodology. The relative need or equalisation pool is of fundamental importance as it allocates funds based on Local Government Bodies who bear greater burdens due to their demographic or geographical region.

Council agrees that a comprehensive assessment of relative needs must be factored into the grant allocation process and thus concurs with the establishment of the relative need pool, although it is within this particular pool that the need for flexibility is most required. Council must be able to state or make application of their perceived disadvantages and be heard by some form of review committee. All varying Council elements must be considered in the assessment process. Pittwater Council due to its regional aspects have such factors as management of coastal terrain, management of isolated and offshore communities, estuarine management and extensive bushland control that in the past have consistently been overlooked in the current equalisation process. Accordingly, any restructure of the equalisation principles must address such oversights to avoid a further decrease in the ability of coastal Local Government Bodies to adequately service their communities.

Conclusion

Council at its Corporate Services Meeting held on the 22nd July 2002, resolved that the following recommendations be included in Pittwater's submission to the Inquiry:

- That State Governments be abolished and local governments throughout Australia provide and maintain community infrastructure and provide other relevant services to their communities.
- That the Commonwealth government provide services such as policing, health, transport, education and community services.
- That the funding for all services provided by local governments to their communities be by way of direct allocation of federal tax revenue, collected by the Commonwealth and transferred to local governments on the basis of relevant formulae having regard to each local government area's distinct requirements and disabilities.