

WESTERN AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

**PRELIMINARY SUBMISSION
TO
COMMONWEALTH INQUIRY INTO COST SHIFTING
BY
STATE GOVERNMENTS TO LOCAL GOVERNMENT**

August, 2002

1. INTRODUCTION

This submission has been prepared by the Western Australian Local Government Association (the Association) in relation to the Terms of Reference of the House of Representatives Economics, Finance and Public Administration Committee Inquiry into cost shifting onto Local Government by State Governments, and the financial position of Local Government.

The Association is the peak body for Local Governments in Western Australia and represents 143 member Councils. The Association welcomes the Inquiry and the opportunity to have input on the role of Local Government and issues for consideration within the context of the scope of the Inquiry.

This Preliminary Submission is the initial document, with a more a more detailed supplementary submission being presented to the Committee by mid September 2002 after consultation with member Councils. It is important to take the opportunity to consult with members and obtain relevant information and comments prior to the completion of a more detailed submission to the Inquiry. A survey of all Councils is currently being undertaken to assist in this process.

Considerable change to the role and expectations of Local Government in the community, has taken place over the last decade, complemented by new legislation, the Local Government Act 1995, which has resulted in a modernising of the accountable and responsiveness of this sphere of government. It is highly capable of efficiently and effectively meeting the needs of the community, providing it has access to adequate resources.

Like any sphere of Government there are ongoing actions that can be taken at both the Federal and State levels to enhance the performance of the Local Government sector as a partner in delivery of required social and economic outcomes.

2. LOCAL GOVERNMENT IN WESTERN AUSTRALIA

2.1 *Number and Size*

Local Government in Western Australia consists of 142 individual Councils on the mainland, with the Shire of Christmas Island and Shire of Cocos Islands also coming under the broad umbrella of Local Government in WA.

The size and geographic circumstances that impact on needs and hence service priorities covers an extreme range. Western Australia has not only the largest Local Government by area in Australia being the Shire of East Pilbara (378,000 sq kms) but also the smallest in area being the Shire of Peppermint Grove (1.5sq kms). In terms of population the smallest Council in Australia is also in WA being the Shire of Murchison with about 140 residents and the largest is the City of Stirling with a population approaching 180,000.

Rating continues to be the primary funding source for Councils with the City of Stirling raising over \$51m whereas at the other end of the scale the Shire of Cocos Islands raises around \$30,000. On the mainland the smallest rate income is received by the Shire of Ngaanyatjaraku of around \$40,000. These differences in geographic and demographic characteristics underline the need for a flexible and responsive system of Local Government in Western Australia.

The changes brought about by the Local Government Act 1995 provided the opportunity to address the issues of accountability and responsiveness while ensuring that a strong and accountable Local Government sector was maintained. Improvement in management performance as well as recognising the increasing needs of the community, through a customer service philosophy, has been an underlying feature of Local Government in the more strategic approach to the delivery of services. Such approach has been underpinned by the development of Strategic and Principal Activity Plans that creates the opportunity to develop long term planning and fiscal responsibility. Asset management and quality assurance measures also now feature in the management systems of Local Government, with many business reforms being driven by these initiatives as well as principles such as National Competition Policy.

Under the *Networking the Nation* Program being implemented through the Association, the on-line business capacity of Local Government throughout the State will be greatly enhanced.

2.2 *Roles and Responsibilities*

With a general competence power under the Local Government Act 1995, Western Australian Local Government provides a diverse range of functions and services as shown by Table 2.1.

Each community is faced with increasing expectations, which is more evident in the rural areas, where this has dramatically increased, due to the withdrawal of many services, by both Government and business. Local Government has been forced to step in to support services such as medical services, schools, postal and banking services, retail fuel outlet and television, mobile phone and radio services that are not traditional Local Government services. In short these matters are falling to Local Government because of lack of service by other tiers of Government and the lack of a robust private sector in order to meet community expectations.

In the current insurance indemnity crisis, many groups who were facing forced closure turned to Local Government for an immediate solution. Faced with this challenge many councils have taken on services that have clearly always been the responsibility of other community organisations and whilst often supported by Local Government were not run or managed by the local Council.

Table 2.1: Functions and Responsibilities of Western Australian Local Government

Function	Range of Services which may be performed
Governance	Council office, Council transactions, governance, leadership, advocacy, information, pensioner rebate scheme, public relations, marketing, performance management, community consultation, agency arrangements, collection of Emergency Services Levy
Law, Order & Safety	Animal control, security patrols, public nuisances, street lighting, public space control, litter control, beach patrols, fire services, natural disaster relief and mitigation, State Emergency Services
Education and Welfare	Public awareness campaigns, community education, aged care, meals-on-wheels, home care, respite care, youth services, disability access, counselling, community development, multicultural services, support of community organisations
Health	Inspection/licensing of food and other premises, child care, community health, immunisation, hospitals
Housing	Rental housing, staff housing
Community Amenities	Refuse services/waste management, noise control, protection of the environment, town planning
Recreation & Culture	Parks, playgrounds, sporting fields and venues, swimming pools, libraries, public internet, galleries, museums, heritage, festivals, cemeteries, public halls, community art, tourism, area marketing
Transport	Roads, footpaths, traffic control, parking, public transport, ferries, barge landings, jetties, airports
Economic Services	Building control, economic development, caravan parks, camping areas, other business activities, saleyards, quarries

3. NATURE OF COST SHIFTING

A very simple definition of “cost shifting”, from a local government perspective, is an increase in the cost to Local Government (the consumer) without an offsetting benefit. Cost shifting can occur under a variety of circumstances and it is felt that shifting costs on to Local Government, by State and Commonwealth Governments, is not good management particularly when the shift is to a body whose prime revenue source is its property base and that revenue base does not necessarily have growth potential.

Table 3.1 below indicates the diversity of circumstances in which cost shifting to local government from the State Government has occurred. Each of these practices has placed significant cost pressures on council’s budgets. In preparing the table it is not intended for the table to contain an exhaustive list but at this stage is an indicative list only.

In some instances, the transfer of the responsibility of the services is explicit, and direct. For example where councils working in partnership with other spheres of government agree to be a joint funder, and provider of a service, and yet are required to contribute higher and higher levels of funding due to the failure of other partner to maintain an ongoing commitment to maintain a service at a particular level.

In other instances the cost shift is quite subtle. For example, where there is a demonstrable community need such as the provision of accessible transport infrastructure and other spheres of government fail to acknowledge a shared responsibility for this service leaving local government to pick up the tab.

Cost shifting occurs when:

- Local government is required to provide services that had been previously provided by the other spheres of government;
- The requirement of other spheres of government to provide concessions and rebates and with no compensation payment.
- Services are formally referred to, and/or are assigned to local government through legislative and other State and/or Commonwealth instruments;
- Local government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state and national public good;
- Local government is required to be the sole provider of new and innovative services that have no historical funding precedent.
- Local government is required to ‘pick-up’ services as a result of the direct transfer of ‘ownership’ of infrastructure from another sphere of government.
- The level of fees that are charged by Local Government for some services have maximum amount set by State Government and there is no mechanism for regular review.
- Local government is required to adhere to imposed compliance regimes (eg. NCP) without funding assistance. The matter of compliance issues in regard to Native Title also has an impact on many Councils in WA.

Table 3.1:Nature of Cost Shifting

	Types of cost shifting	Examples
1	Local government is required to provide services that had been previously provided by the other spheres of government	The provision of aged and children’s services was initially funded through Federal and State Governments initiatives (usually in the form of Specific Purpose Program (SPP) funding), albeit often requiring local government matching funding. Over time Commonwealth and State funding has been reduced in real terms. Funding has not been adequately indexed, or grown to meet increased demand that has resulted from population growth. To maintain/grow these important services in their local communities in line with demand, local governments have been forced to significantly increase their funding contributions, often at the expense of other services. An example of services being provided by many councils to meet the community need is additional security services as it is considered by the community that there is insufficient police services.
2	The requirement of other spheres of government to provide exemptions, concessions and rebates to pensioners, low income earners, senior card holders, disability support recipients amongst others,	States, and increasingly the Commonwealth, often require local government to provide exemptions, concessions and rebates to pensioners, low income earners, disability support recipients amongst others, with no compensation payment. In Western Australia

	with no compensation payment.	there are limited examples of this type of cost shift (eg dog licenses) however in recent years Councils have been required to implement the legislative changes in this area without any recompense or reimbursement.
3	Services are formally referred to, and/or are assigned to Local Government through legislative and other State and/or Commonwealth instruments	<p>There are numerous examples where State and Commonwealth legislation and regulations require local government to undertake service provision, including regulatory functions. These cover such services as food inspection, enforcement of building and planning controls, environmental management functions etc. These requirements are not accompanied by funding and are a direct cost to local government. Under existing arrangements these costs can only be met by own source revenue or levying business. There are also many examples where Local Government is required to comply with legislation simply because it is “lumped” into all embracing legislation.</p> <p>(The Commonwealth Grants Commission in their <i>Review of the Operation of the Local Government (Financial Assistance) Act 1995, June 2001, identified this practice as ‘raising the bar’ and/or ‘devolution’.</i>)</p>
4	Local Government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state and national public good.	The provision of local services and infrastructure such as local and regional roads, environmental management services and community services are often essential/ important activities that, when viewed from a whole-of-network perspective provide significant local, regional, state and national public good. The provision of these services and infrastructure should not therefore be the sole responsibility of local government. They are clearly a collective responsibility and should be jointly funded by all spheres of government.
5	Local government is required to be the sole provider of new and innovative services that have no historical funding precedent	The provision new and innovative services and infrastructure such as telecommunications and information technology (IT) has emerged as a critical issue in all communities. The provision, for example to access to Internet services in rural communities is a major issue for and in many cases a major cost to local government. As there has not been a historical precedent for government funding of this new innovative service, it has fallen upon local government to be the provider of these local services. However, local government believes that this type of investment clearly contributes to state

		<p>and national equity objectives, and should therefore not be the sole responsibility of local government.</p> <p>The cost shift issue is not just from Government. There are many businesses that have withdrawn services from the community and Local Government is left to pick up the role. A very good example of this is banking where many Councils have initiated running of Community Banks.</p>
6	Local Government is required to 'pick-up' services as a result of the direct transfer of 'ownership' of infrastructure from another sphere of government	This type of cost shifting occurred, for example when 'Commonwealth Aerodromes' were transferred to local government, albeit with initial financial incentives. This transfer gave no consideration to the capacity of councils, particularly in remote and rural to sustain the new arrangements. The choice for councils appeared to be one of either accepting the opportunity or loosing the service to the community. Councils now are responsible for the funding of these facilities without the financial or administrative capacity to sustain these services.
7	The level of fees that are charged by Local Government for some services have a maximum amount set by State Government and there is no mechanism for regular review.	This situation occurs where the State Government imposes through legislation a maximum fee that Local Government can charge for a particular service that is fully administered by Local Government. The impact is that the fee is not regularly reviewed and as a consequence over time loses value against the cost of providing the service. There is no mechanism for automatic or regular reviews to be undertaken even in line with the Consumer Price Index. An example of this is fees associated with planning matters which were introduced as a form of control. The fee was introduced in December 2000 and there has been no subsequent review. There are a number of other examples.
8	Local government is required to adhere to imposed compliance regimes (eg. NCP) without funding assistance.	Local Government complies with the requirements for issues such as NCP and whilst it is understood states may be recompensed Local Government in WA is denied access to any funding.

4. COST SHIFTING FROM STATES TO LOCAL GOVERNMENT

Due to the diversity of the circumstances in which cost shifting occurs, the complexity of accurately identifying all occurrences and the lack of adequate data, quantification of the full cost of cost shifting to

local government is extremely difficult. The purpose of the survey mentioned earlier is an attempt to document anecdotal data as well as providing some quantification to the value of cost shifting that has occurred as well as establishing the range of activities. For example in WA, many Councils, are involved in assisting in the under-grounding of overhead power lines. The estimated contribution from Local government each year is \$10m. The infrastructure that results from this project is then the property of the electricity carrier which is owned by the State Government.

Irrespective of the ability to quantify the detailed costs, it is clear that cost shifting over several decades has placed considerable pressure on Local Government finances. It has also resulted in a number of undesirable outcomes, including, declining levels of infrastructure maintenance and replacement, and increased levels of user charges.

The State and Commonwealth Government use of Special Purpose Funding (SPP) has on many occasions required matching funding, and/or other conditionality which causes Local Government to jointly fund these programs. The use of SPPs also enables the respective Government to fund programs that reflect their own priorities and also use them as a vehicle to influence the priorities of Local Government. The use of such mechanisms which require cost sharing are in themselves a form of cost shifting as one would expect the Government might wish to achieve a particular policy outcome to fully fund the programme.

This requirement means that Local Government, in effect must use its own resources for activities that may be considered to be outside of their normal purview, or their direct 'traditional' area of responsibility. This has placed significant pressures on local government budgets and forms a direct cost shift particularly if Governments decrease their contribution in real terms over time, and/or do not increase levels of funding to meet increased demand.

The failure of SPPs to maintain parity with the growth rate of local government own source revenue, or other payments to local government, represents a significant transfer of responsibility to local government from states. The introduction of many new programmes through SPPs leads to an increase in community expectation which makes it very difficult, if not impossible, for services to be withdrawn. An example of this was the decision some years ago to phase out any subsidy for the recreations officers' scheme. The scheme had been funded by way of the State Government in WA paying the employment costs of an officer and the Local Government meeting other operating costs. With the withdrawal of the employment costs subsidy, the officer who had been built into the structure and operations of many councils as well as the community infrastructure, could not be easily removed or withdrawn. This immediately created a cost shift.

5. CONCLUSION

This initial submission to the Inquiry has outlined a number of broad issues that are relevant to the Terms of Reference and it is proposed to provide a supplementary submission at a later date once all the data from the Local Government survey has been collated.

There is no doubt from the initial review that there is clear evidence that local government does not have a sufficient revenue base to

- to maintain or meet increasing community demand for human services, and
- at the same time to adequately maintain and replacement their traditional forms of infrastructure.

The primary source of Local Government income ie rates is considered slow growth revenue, which has therefore resulted in users charges increasing at a greater rate and as a consequence they have become an increasingly important form of revenue.

In making this submission it is acknowledged that cost shifting will occur from time to time and in such circumstances principles should be developed to minimise the impact on the party to whom the cost shift is made, generally Local Government. Ways of minimising the impact is to develop strategies that guide

the allocation of programme responsibility. This in effect means that the responsibility should not be allocated solely to Local Government without a fair and appropriate level of financial resources.

