

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

Council wishes to submit the following information for the Standing Committee's consideration:

**Reference 1 – Local Government's current roles and responsibilities.**

The functions of Councils are set out in Section 20 of the Act, specifically, to:

- a) formulate, implement and monitor policies, plans and programmes for the provision of appropriate services and facilities to meet the present and future needs of the community;
- b) facilitate and encourage the proper planning and development of the municipal area in the best interests of the community;
- c) manage, improve and develop efficiently and effectively the resources of the council;
- d) develop, implement and monitor strategic plans for the development and management of the municipal area;
- e) provide for the health, safety and welfare of the community;
- f) represent and promote the interests of the community;
- g) provide for the peace, order and good government of the municipal area.

The abovelisted functions cover a broad range of activities, however, council is experiencing increased community expectations that it will provide many of the community services and infrastructure that traditionally, would not have been considered the responsibility of Local Government and in fact, may have even been considered the direct responsibility of Federal or State Governments. Council's submission is based on the assertion that if it is going to be responsible for the provision and maintenance of the broader range of community services and the infrastructure, then, it should be the recipient of the corresponding funding direct from the Federal Government.

**Reference 2 – Current funding arrangements**

Council's revenue is presently derived from five main sources, being:

- Rates
- Fees and charges
- Grants
- Bank interest

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

- Commercial dividends

The income figures for the 2001/2002 financial year for each category were:

	\$
➤ Rates	10,040,679
➤ Fees and charges	675,501
➤ Grants	2,011,324
➤ Bank interest	336,718
➤ Commercial dividends	230,818

In the 2001/2002 financial year, government grants accounted for 15.14% of council income but it is particularly interesting to compare the comparison between Federal and State grants.

	\$
➤ Federal grants	1,974,762 (14.85%)
➤ State grants	37,563 ( 0.28%)

By comparison, in the 2000/2001 financial year, government grants were:

	\$
➤ Federal grants	2,981,000*
➤ State grants	29,000

\* includes \$1,083,000 Roads to Recovery funds.

On that basis, Federal grants represent about 15% of council's annual income and it is a major source of revenue. The amount of Federal grant income will vary from year to year depending on the specific purpose grants, but the total Federal money is always a major source of revenue for council.

Bearing in mind the importance of Federal grant income, council is very concerned with the methodology used to allocate Federal money to Local Government. The two main programs used to distribute Federal money to Local Government are the Federal Assistance Grants and the Identified Roads Grants. In both cases the main criteria used for distribution is population.

The per capita method has been used to distribute Federal Assistance Grants since 1989/90 and council notes that the Commonwealth Grants Commission is recommending an urgent review of the distribution method.

Council would argue that a distribution methodology based on fiscal equalisation principles is a much fairer method that will help maintain the value of infrastructure and

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

adequate services in regional Australia and so help avoid social ghettos developing in regional centres.

The Tasmanian population is declining, which is a trend being experienced by many other regional areas of the country. With federal grants based on per capita the major cities, where population growth is strongest, are gaining a financial advantage over regional areas, which will lead to an imbalance in infrastructure and community services. One of the guiding principles behind all Federal grants is that all areas of Australia should have the same community services, but that principle may break down if changes are not made.

For some time Local Government in Tasmania has been concerned about the effect declining population might have on the capacity to maintain services at the local level and commissioned a study by the University of Tasmania to look at the likely possibilities. A copy of the university's May 2001 report can be made available. It shows a very serious trend through to at least 2017, with most councils in the State being financially hard pressed and a likely deterioration in the level of local services.

The financial pressure is also compounded by the increasing demand by State and Federal Governments legislating for higher standards in a number of policy areas such as environment and health. Worthwhile as those higher standards are, with a declining population leading to a lower rate base and proportionally reduced Federal grants, Local Government in regional areas can only achieve those standards by cutting back on some other services.

This matter needs urgent attention.

**Reference 3 – Existing capacity and regional outcomes**

West Tamar Council is very keen to pursue regional objectives in conjunction with neighbouring councils. Local government in the region has for some time expressed concern about the lack of co-coordinated effort and the scattered resources for economic and tourist development. It is also recognized that economic and tourism developments are not functions that can be confined to local government boundaries. It is recognized that a regional approach is required. A regional body may also advance local government interests and further expand to take in such activities as Natural Resource Management, Weed Strategy or other activities that are catchment area focused rather than municipal area focused. A new regional body for Northern Tasmania is in the formation stage, and West Tamar Council has been instrumental in designing the structure and role of the new body. The regional body will provide leadership for Northern Tasmania, provide communication links to Federal and State governments as well as other organizations, develop opportunities for Northern Tasmania and promote the region as a favourable location for business, tourism, community and economic development. In addition,

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

northern regional councils are already signatories to a number of regional partnership agreements with the State Government. At the outset of the partnership process it was agreed the regional objectives outweighed local objectives within each municipal area.

Council is yet to see significant outcomes from the partnership agreements and during negotiations the State Government stressed the process would not lead to increased funding from the State to Local Government. It would be fair to say many people involved with Local Government are suspicious the partnership process might lead to increased responsibilities for councils without adequate funding to support the added responsibilities. At this stage, council is not aware of that happening, but the suspicion remains.

It must be stressed that any increase in responsibilities or any new activity without funding from other levels of government has a direct impact on rate income and can only be implemented if other services are cut or rates increased. As council moves into areas such as tourism, funding must be redirected from general rates so as to sustain such activities. In general, as local government moves more away from “roads, rates and rubbish” into community issues then it is a drain on economic resources and long-term sustainability of some services must be questioned or alternative funding methods found.

There is suspicion that funding by the Federal Government for Local Government is diluted at the State level because of the added administrative process. Federal grants are distributed to councils by the Local Government Grants Commission but council is not aware who determines the guidelines. However, untied grant money can only be made available to the States under section 96 of the constitution, which means the States must have a role in the distribution of funds to Local Government. The State Government is very reluctant to disclose details of the impact of administration fees.

A more efficient method of distribution would be to have Federal grants made directly to councils. Such a process would be administratively more efficient and eliminate any suspicion of dilution at the State level. However it may also require a constitutional amendment to include a new clause similar to section 96.

**Reference 4 – Local Government expenditure and impact**

The commitment of the State Government to National Competition Policy has impacted on Local Government, as it is the body that seems to be expected to implement the reforms necessary to meet the States’ obligations to the Federal Government. However no financial benefits accrue to Local Government and whilst the Federal and State Governments agree with the policy it can be argued that it is simply a case of doing business with yourself, whilst realising no real benefit to the community at large. The theorists will of course disagree, however in practice, council is evidencing this claim to be true. For example, the implementation of two-part water pricing saw the State

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

Government receive \$17 million in Federal funding, however, none of those funds were directed the councils, who in fact introduced two-part water pricing.

Similarly, the reimbursement of GST funds from the Federal Government to the State Governments saw some other State Governments pass some of those funds to Local Government, however, in Tasmania Local Government did not receive any of the GST funds.

The funding of bridge replacement is another major area where local Government has been short changed by the State Government. Some eight years ago the State Government transferred the responsibility for the replacement of bridges on local roads to Local Government. This did not seriously impact on council's finances in the first few years, however, now that many of these bridges are requiring replacement a major financial burden has developed. For example, council has been required to provide the following bridge funding over the past five financial years:

	\$
➤ 1997/1998	64,772
➤ 1998/1999	99,235
➤ 1999/2000	87,744
➤ 2000/2001	41,330
➤ 2001/2002	1,274,490

The provision of all of this funding for bridge replacement has been without any contribution by the State Government.

**Reference 5 – Rationalisation of roles**

West Tamar Council is keen to explore methods of rationalising roles and responsibilities between the levels of government. However, it must be stressed that any transfer of responsibilities has to be accompanied by commensurate levels of funding. Council cannot agree to added responsibilities without added funding because it throws an immediate burden on ratepayers, and merely constitutes an additional form of taxation.

**Reference 6 – Commonwealth Grants Commission Review**

Council has looked at the Commonwealth Grants Commission report tabled in June 2001 and makes the following comments.

There should be consistency in the distribution guidelines used by State Local Government Grants Commissions. If the intention behind the Commonwealth legislation is to be achieved it is essential the same distribution principles are applied in all States. However the Commonwealth legislation should be amended to ensure it reflects the

***West Tamar Council - Submission to the House of Representatives,  
Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting – 25 July 2002***

needs of Local Government across the country. Clearly the needs of regional councils will not be the same as metropolitan councils, but the Act should allow sufficient flexibility to satisfy both.

It is therefore essential fiscal equalisation principles are reflected throughout all Acts set up for the purpose of distributing funds to Local Government. Clearly the Commonwealth Grants Commission agrees with that principle.

Council agrees that the 'Financial Capacity Purpose' is being achieved under the current arrangements, both with the minimum untied grant principle and through the Identified Road Grant Scheme.

The Grants Commission sees nothing wrong with the 'certainty of funding principle' and council agrees such a principle is ideal in the Act. However, council would argue that certainty of funding is better achieved by setting aside a fixed share of income tax for Local Government. The principle introduced by the Whitlam Government, and continued by the Fraser Government, was the most certain funding arrangement ever experienced by Local Government. Council understands that to return the share provided by the Fraser Government would entail a significant increase in funds to Local Government and such an outcome is beyond the Committee's terms of reference. However, the principle of a fixed share of income tax revenue is one that would give the most certainty of funding, regardless at what level that share is set.

The 'equitable level of service purpose' is one that urgently needs review. As pointed out earlier the distribution of funds using per capita as the major criteria does not, and cannot, achieve equitable services. The decline in regional population and the increase in metropolitan populations means there is a disproportionate shift in funding from regional areas to the major cities. If the population trend continues, and there is no change made to the method of distributing funds, regional Australia will quickly fall behind in the level of services offered to local communities. This is not the principle behind the Act and council agrees with the Grants Commission in that changes are urgently needed.

Council also agrees with the Grants Commission that the 'efficiency and effectiveness purpose' should be removed from the Act. It is impossible to measure such factors and it therefore becomes a subjective judgement. If subjective judgement of the effectiveness of programs is to be taken into account the ratepayers should surely use it at election time. Local Government is a democratically elected level of Government, and the electors within a municipal area are much better able to cast their judgement on the effectiveness of programs than any government official.