



l o c a l g o v e r n m e n t a s s o c i a t i o n
o f t a s m a n i a

**SUBMISSION TO INQUIRY
INTO COST SHIFTING
ONTO LOCAL GOVERNMENT**

September 2002

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Introduction

The Local Government Association of Tasmania (LGAT) has prepared this submission 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 Government and the financial position of Local Government.

The subject matter of the inquiry has long been an issue of concern by Local Government in Tasmania and the LGAT is grateful for the opportunity to be able to make a contribution to this debate.

The LGAT believes that Local Government has a right to participate as an equal partner in the Australian tripartite system of government and has a right to an equitable share of the nation's resources for this purpose. Local, State and Commonwealth Governments should respect each other's mandate and cooperate to ensure maximum benefit to the community with minimum duplication. Local Government should have control and management of its own physical, financial and human resources and must be consulted on all matters affecting it.

At a state level the LGAT is presently working with the State Government to review the current financial relationships between State and Local Government. While not an exhaustive exercise in respect of identifying/negotiating roles and responsibilities of the two spheres of government, it does focus on the present flows between the two and is seeking to rationalise the present arrangements and make them more transparent and councils and agencies more accountable. Unfortunately, it suffers a similar restriction to this inquiry in the context of both being based on a presumption of revenue neutrality. While the concept is appreciated in the context of short term fiscal and budget management, it is not considered the best or most equitable basis for reform and may restrict the number of measures that can ultimately be implemented.

In light of the significance of this inquiry and its potential importance to Local Government over the coming decades, the LGAT has taken the opportunity to consult with its member councils to obtain applicable input and comments in support of this submission. It is understood that several have already lodged individual submissions detailing their concerns about cost shifting and providing some examples of the types of shifts that have occurred.

A detailed survey was prepared and distributed to councils to elicit both anecdotal and quantitative evidence of cost shifts that have occurred over the past twenty years. A copy of the survey is enclosed at Appendix A. While it would have been beneficial to be able to provide absolutes in terms of the quantities associated with cost shifts, the reality is that without detailed analysis and research, it is simply not possible to be precise.

The reality is that cost shifting has taken place over many decades and has placed considerable pressure on Local Government finances. It has brought with it angst, resorting to alternative funding options such as increased user charges and pressures on the ability to maintain and replace assets at the appropriate levels.

TOR 1 Local Government's Current Roles and Responsibilities

1.1 Local Government in Tasmania

There are presently 29 councils in Tasmania ranging in size from 62,510 residents in Launceston to 890 residents on Flinders Island. There are two island councils, the remainder forming the Tasmanian mainland.

As Tasmania is the most dispersed State in the nation, Local Government has significant expectations placed on it to provide the same levels and spread of services as their closest neighbours or their most distant counterparts. The distinctive nature of Tasmania's population distribution is evidenced by the fact that it has the lowest proportion of its population residing in the state capital and the highest proportion residing in centres with more than 5000 inhabitants.

The past decade has seen significant reform for Local Government in Tasmania with a reduction in the number of councils from 46 to 29 and an overhaul of its governing legislation in 1993 providing for greater autonomy of councils and far less prescription in terms of what should be done and how it should be done. It has also brought increased community accountability with councils required to produce five year rolling strategic plans that involve community consultation and being required to conduct Annual General meetings that provide the opportunity for the community to comment on and question the performance and direction of the council. Another feature of the reforms is a higher level of management in councils across the state.

In addition to the legislative requirements associated with community input and consultation on council operations and affairs, a number of other initiatives have been embraced including a Local Government initiative in benchmarking/accountability through the development of a suite of common key performance indicators. While the focus so far has been service delivery and community responsiveness measures, community service satisfaction and well-being measures are under consideration.

Unlike their State agency counterparts, councils in Tasmania also adopted accrual accounting in 1993 and have placed significant effort on asset management and valuation. They have also been required to embrace the provisions and principles of National Competition Policy without recompense and often with significant disquiet from their communities.

1.2 Functions and Powers of Local Government

It is fundamental that Local Government areas are defined to permit the exercise of certain functions within their boundaries. However, it is important to accept that the boundaries themselves are of only minor importance, and that the composition of an area is the key to the effective performance of functions, as well as the acceptance of new expectations and responsibilities.

Local Government exists to provide a wide range of functions to the community. The establishment of these functional areas assumes that close local participation should exist in the provision of certain services. However, the rationale for the concept and its application is not always clear. Local Government's traditional core activities have centred on the provision of roads and other utilities with a growing focus on the

enhancement of quality of life through the provision of civic, recreational, social and cultural amenities. There has also been an increasing trend toward social welfare, community development and environmental activities.

Section 20 of the Tasmanian *Local Government Act 1993* states that:

(1) The council of a municipal area has the following functions:

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

(2) In performing its functions, the council may do any one or more of the following either within or outside its municipal area:

- (a) develop, implement and monitor programs to ensure adequate levels of its accountability to the community
- (b) develop, implement and monitor effective management systems;
- (c) develop, implement and monitor procedures for effective consultation between the council and the community;
- (d) inform the community of its activities and provide reasonable opportunities for involvement in those activities
- (e) any other thing necessary or convenient.

1.3 Roles and Responsibilities of Local Government

The role and responsibilities of Local Government in Tasmania have changed and increased over time. The community looks to Local Government to have a responsibility for more than “roads, rates and rubbish”. Many municipalities provide extensive human services as well as more technical services such as planning, building and plumbing control, water supply and sewerage. Many of these services are required, and controlled, by statute.

Community expectations continue to rise and Local Government finds, with the ongoing withdrawal of services, whether they are banking, medical, postal or communication services, that it is having to step in to support these activities even though they are not typical or traditional responsibilities of Local Government. Finding itself as the last major institution left in the community, Local Government often has to fill the void left by those that have left town, whether they are public or private sector providers.

The decision by the Department of Primary Industries, Water and Environment and Mineral Resources Tasmania to withdraw services of providing independent advice to Local Government in the areas of agriculture and land stability has necessitated councils to source that information from private consultancies. This has introduced a consequential cost to Local Government.

Details of the services provided by Tasmanian councils are set out in the table below.

Development and Environmental Services	planning and development, heritage and conservation, urban design, environmental planning, public health, food safety, environmental monitoring, economic development, noise control, waste management and landfill
Community Development	children, youth and aged services, cultural development, immunisation, disability access
Water and Sewerage	water reticulation, water quality, stormwater, drainage, sewerage treatment, liquid waste management and solid waste management
Building	inspection, certification and enforcement
Public safety	Emergency management, animal control, public nuisance, litter control
Recreation and Culture	swimming pools, sports grounds and facilities, halls, markets, parks and reserves, playgrounds, galleries, festivals, cemeteries
Transportation	roads and bridge engineering, construction and maintenance, traffic policy and control, parking, jetties, airports

There has been a tendency for other levels of government to encourage Local Government to undertake other responsibilities by means of “seeding” grants that are sometimes phased out in later years. This leaves a community expectation that the programs thus established will continue, but leaving the council and/or the community to finance them. Local Government needs firm assurances or guaranteed sources of funds if it is to be responsible for additional functions presently performed by other levels of government

If other levels of government decide that certain services and functions, which are currently their responsibility, could be more economically and effectively performed at the Local Government level, the fundamental question is how should those functions be funded?

If such devolution removes at least some of any duplication presently occurring and so results in financial savings for other levels of government, should those savings be used to fund Local Government? If so, to what extent? In what other ways could Local Government fairly be expected to finance new services and responsibilities?

In the last 10 years the following legislation has been introduced which has significantly affected Local Government responsibilities:

- *Environmental Management and Pollution Control Act 1994*
- *Public Health Act 1997*
- *Guidelines for water quality, places of assembly, public health risk activities, notifiable diseases and contaminants, legionella*
- *Food Act 1998*
- *Guidelines for food hygiene, ANZ Food Safety Standards, ANZFA Food Standards Code*
- *EMPCA Heat Pump Regulations*
- *Plumbing Regulations 1994*
- *Building Regulations 1994*
- *Draft Air Quality Policy*
- *Draft Noise Policy*
- *Water Quality Reporting to Director Public Health*

Local Government believes that in a much higher proportion of functional areas, it should be fully autonomous to determine whether to provide a function or service and, if it decides to do so, to set the policy guidelines and standards that it believes appropriate and to raise the funds necessary to provide it. It should then be in a position to determine whether to provide the service itself or seek some other agency to do so, with the council overseeing the performance of that agent.

Local Government does not deny that in many functional areas the State or Commonwealth should set appropriate standards necessary to ensure that public health and safety are safeguarded, with it then providing the service and being responsible to meet those standards. This does not require the external supervision in the manner that is presently common.

1.4 Demographic Analysis

Compared with other Australian States, Tasmania suffers high unemployment, low participation in the labour force and an aging population. This combination of circumstances is detrimental to the rating capacity of Local Government in Tasmania.

Based on recent statistics (ABS 1303.6 Tasmanian Statistical Indicators 8/8/2002) Tasmania has a Labour Force Participation Rate of 57.8% and an unemployment rate of 8.3% which indicates that less than half of the Tasmanian population is in employment, full or part time. This would suggest that more than half of the Tasmanian population derives an income from alternative means or does not earn an income at all. These people receive either Government benefits (newstart allowance, austudy, pensions etc), are dependents (children, housewives/husbands) or are non-workers (retirees).

79% of Tasmania's population is aged over 15 years. With Tasmania's aging population (approximately 13.6% of the population are aged over 65) a large proportion of Tasmanian population is retired or semi-retired and this is growing with the increasing number of interstate migrants relocating to Tasmania for retirement purposes. This segment of the population derives an income from either Government benefits (pension) or from personal superannuation and/or investment funds. It is therefore reasonable to assume that the majority of Tasmania's population over 65 are low-income earners and, while not definitive, it is further likely that many are homeowners and ratepayers.

The demands of an aging population and a significant number of non-working people for council services continue to escalate without access to the financial backing required to meet these demands. The cost of providing services such as community health, aged care facilities, housing, welfare and other human services absorb a large percentage of the total funding of Local Government (66.56% in 1998). A small percentage of the Local Government budget is focuses towards the traditional Local Government responsibilities of roads, rates and rubbish.

69.4% of dwellings in Tasmania are owned or in the process of being purchased by the occupants of the dwelling. This represents a significant majority of owner occupied dwellings and therefore a high proportion of the population are ratepayers (only 26.3% of dwellings are rented). However, based on the median annual income of Tasmanians (\$13,156), the ability to repay debt/mortgages and council rates and charges is constantly challenged.

The rate of wages growth in Tasmania has not kept pace with the rest of Australia over recent years. In the three years to 2000-01, average total earnings in Tasmania rose at an average annual rate of 2 percent in nominal terms, below Australia's 3.3 percent growth rate.

The level of average total earnings in Tasmania has been the lowest of all Australian states and territories since 1993-94. The level of Tasmanian earnings was around 86 percent of the Australian average in 2000-01 (\$560.48 per week compared to \$653.63 nationally), down from an average of 95 per cent prior to the mid-1990's. This decline is due, in part, to the greater importance of part time labour in Tasmania relative to Australia as a whole. Part time positions currently account for about 31 per cent of all jobs in Tasmania (28 per cent nationally), up from 26 per cent a decade earlier (24 per cent nationally).

Tasmania's employment record since the mid-1990's is reflected in the highest unemployment rate in Australia, although the trend has eased since early 1999. Tasmania's unemployment rate averaged 8.7 per cent in 2000-01, which was 2.3 percentage points above the Australian average but the lowest annual rate in 11 years.

1.5 Population

Tasmania experienced a steady downward trend in its population during the 1990's caused by a sharp rise in interstate out-migration. However, recent data indicate that, for the first time since 1996, the State has returned to positive population growth.

While welcomed, the outcomes of a recent report undertaken by Dr Bruce Felmingham of the University of Tasmania, entitled "The Impact of Population Decline on Local Government in Tasmania" indicate a deterioration of that situation over the next fifteen years

The findings from the report were as follows:

- The population of Tasmania's LGAs in total will decline by 5.8% over the period 2000-2017.
- There is substantial inter LGA movement of this population so that 9 LGAs gain and 20 lose population.
- There is substantial ageing of the population profile: 29.7% of population aged over 50 in 2000 will rise to 41% in 2017.
- The loss of grant income to LGAs totals \$4.33 million
- The loss of rate revenue amounts to \$16.62 million for all LGAs

Because the Commonwealth's Financial Assistance Grants for Local Government are allocated to States on a per capita basis, there will be a substantial impact on this source of revenue for Tasmanian Local Government as well as a significant erosion of the individual ratable income base. Based on the maintenance of the current base grant funding over the period 2000-2017, the cumulative loss of grant funds and rate loss equates to \$20.95 million for this period.

King Island has a population of just 1,700 (a decrease of 10.33% since 1991) and covers a land area of 1158 square kilometres. Almost half the population live in the main township of Currie. The Council is on notice that in the next 12 months it must complete the construction of a new waste disposal facility and rehabilitate the existing central waste site, construct a sewage treatment plant to address raw sewage being discharged into the ocean, establish a new quarry for road base materials and address issues of contamination and blue green algae in town water supplies, in addition to the current works and services provided by the Council.

There are only 381 connections to the Currie Sewage system and 860 garbage services and without Government infrastructure funding increases in the order of up to 193% for garbage charges and a 238% for sewage charges are required ostensibly just to meet the operating costs of the new systems. After Council's limited reserves are applied to meet capital costs the short fall on capital funding is in excess of \$2 million. The Commonwealth has offered \$600,000 to assist, the State Government only \$13,800.

These are significant numbers for Tasmania and represent huge pressures on Local Government to simply maintain the assets and services it currently provides let alone facing the challenge of taking on more.

In terms of the major movements in population within the state there have been some alarming shifts that are placing significant pressures on councils. The rapid urbanisation of former rural municipalities in near proximity to Hobart and Launceston has resulted in massive demand for new and improved infrastructure and facilities. In particular, the municipalities of Sorell and Kingborough have seen increases in population of 29.98% and 15.77% over the last ten years while the Meander Valley Council has had a population increase of 20.21% over the same period. The smallest municipality on mainland Tasmania, Tasman, has also had an increase in population of 15.7% in this period.

At the other end of the spectrum, West Coast Council's population dropped by 27.97% over 10 years, Central Highlands Council by 21.59%, King Island Council by 10.33%, Burnie City Council by 9.94%, and Derwent Valley Council by 9.30%.

These large shifts have significantly impacted on how these councils operate, the roles and responsibilities they have to assume in both a fast growing or quickly declining communities and the functions and services they must provide. As an example, the Sorell Council, which is an urban/ rural and coastal municipality, has several former coastal areas and towns that were previously utilized as holiday destinations by Hobart residents. The demand for cheaper housing coupled with the greater willingness of people to commute has resulted in exponential demand for reticulated services such as sewerage and water, placing considerable strain on council resources.

Central Highlands municipality consists of 8010 square kilometres of predominantly rural land with 748 kilometres of council roads. The current population is 2328,. Each resident of Central Highlands is effectively responsible for 321 metres of road. However, Central Highlands has suffered a population decline of 21.59% since 1991. In 1991, residents were only responsible for 252 metres of road each. The fixed costs for road maintenance have remained constant, however, the Council does not have the same rating capacity to fund the maintenance. How can Local Government maintain roads and provide community services without substantially increasing rates?

Communities today demand more of their local council than previously. Services continually expand, instigated and initially funded by either State or Commonwealth Governments, but ultimately return to being the responsibility of the local council.

Whether the responsibilities of Local Government today are a result of cost shifting from Federal or State Government or not, these levels of Government need to recognise the difficulties facing the municipalities of Tasmania on an everyday basis. Some individual municipalities face even more severe situations than those outlined above, and as Murphy's Law would have it, it is these Councils and communities that need these extra services more than others.

1.6 Partnership Agreements

The current State Government in Tasmania has implemented a new relational arrangement with Local Government termed Partnership Agreements. Whilst extremely popular with councils and the community in assisting with the identification and implementation of local solutions to local problems, the Partnership Agreement process has the potential to further blur the lines of responsibility for certain activities between State and Local Government. As these relationships develop and become more intricate, it is difficult to determine what is an obvious service, function or role of State or Local Government.

A Partnership Agreement is a document that outlines the ways in which the State Government and a council or group of councils can find innovative ways of working together to improve the social, economic and environmental situation within a community by reaching mutually agreed goals. A Partnership Agreement can involve a particular issue or may cover a range of particular issues.

They provide an opportunity to examine government service delivery arrangements and for the State and Local Government to jointly identify measures to improve their design and/or delivery. Where State Government services can be more effectively and efficiently delivered at the Local Government level agreement will be reached on appropriate funding arrangements with any amendment to existing service delivery arrangements subject to contractual arrangements to ensure appropriate accountability and transparency of implementation.

Results from the Partnership Agreements are measurable through agreed timeframes and outcomes. Each agreement is accompanied by an action plan identifying respective responsibilities, resources and timeframes.

The pilot phase of the program was launched in December 1998 commencing with the negotiation of an agreement with the Circular Head Council and the signing of an agreement with the Launceston City Council in December 1999.

Amongst the completed agreements are seven bilateral agreements with single councils; two comprehensive regional agreements with groups of councils; three issue specific regional agreements with groups of councils and two statewide Partnership Agreements through the Premier's Local Government Council (PLGC).

1.6.1 Premier's Local Government Council

The Premier's Local Government Council was established in 2000 as a forum for high-level discussions with Councils on issues of statewide significance. The Council membership comprises the eight elected representatives who make up the General Management Committee of the Local Government Association of Tasmania. It is supported by an Officials Committee comprising State and Local Government officers.

A Statewide Partnership involves the State Government and all local councils and is signed by the president of the Local Government Association of Tasmania on behalf of Councils. Statewide Agreements are developed under the Premier's Local Government Council.

The PLGC has developed two Statewide Partnership Agreements for Simplifying Planning Schemes and for Waste Management. A number of significant matters are being pursued that have not yet been formalised as Partnership Agreements including State and Local Government financial relationships, Constitutional Recognition and Communication and Consultation.

The forum has also provided the opportunity to debate and establish other working arrangements including a Local Government Forestry Consultative Committee and the Tasmanian Emergency Risk Management Project.

1.7 Summary

Local Government plays a significant role in the delivery of services to communities. Its geographic proximity, close links to the community and the breadth of services it provides has an impact on all Tasmanians and their general well being. Local Government is the government closest to the people and their priorities. It is now providing a broader and more complex range of services than it has previously and has moved strongly toward the provision of human and social services. The broad capacity to deliver these services and others desired by the community are limited by the capacity for the community to pay and the limited revenue base of councils. Tasmanian Local Government does not have the ability to increase its rating schedules on the basis of its population make-up. The communities cannot afford to pay for the services it demands from Local Government.

TOR 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

2.1 Financing Local Government Services

Any analysis of the finances and economics of Local Government in Tasmania, and indeed across Australia, must take account of the historical evolution of the system, the current institutional arrangements and predictions about the future. The political, economic and social forces and the differences between politics at the local level and other levels of government must be considered.

In the past the State Government has considered the optimum delivery mechanisms for its services and determined that the structure and operations of Local Government provide a better vehicle for the delivery of a range of economic and social policies. Inter-governmental interactions and organisational arrangements have both influenced the objectives and roles of the respective levels of government. At a point in time, when environmental, economic or social circumstances are favourable or warrant particular action, there can be general agreement that institutional and financial arrangements or responsibilities should change. It is not until circumstances change, often to the detriment of one party, that these matters are reflected upon and grievances aired or circumstances at the time of the negotiation forgotten.

Local Government is continually looked at by the State, and indeed by itself, as the Government closest to the people. But being closest to the people does not mean it has the capacity to deliver more to the people or provide them with a better service based on proximity. There is no doubt in recent years that Local Government has extended its role in the community. The departure of institutions such as banks, post offices and health facilities coupled with decisions by successive State Governments to centralise State Government activities or offer alternative channels of delivery (not physical) has placed councils in the position of being the mouthpiece of the community, rallying support for action, being a focus for lobby activity and providing the community with support and recovery from such actions. In many areas the council is the last institution standing with the community seeing it as its champion for government action – be it Federal, State or Local.

And it is because of this closeness that Local Government has become the target or obvious recipient for the delivery of increased services or conduct of increased activities. In many cases this has not involved the shift of a new service or activity but rather the extension or variation of an existing service.

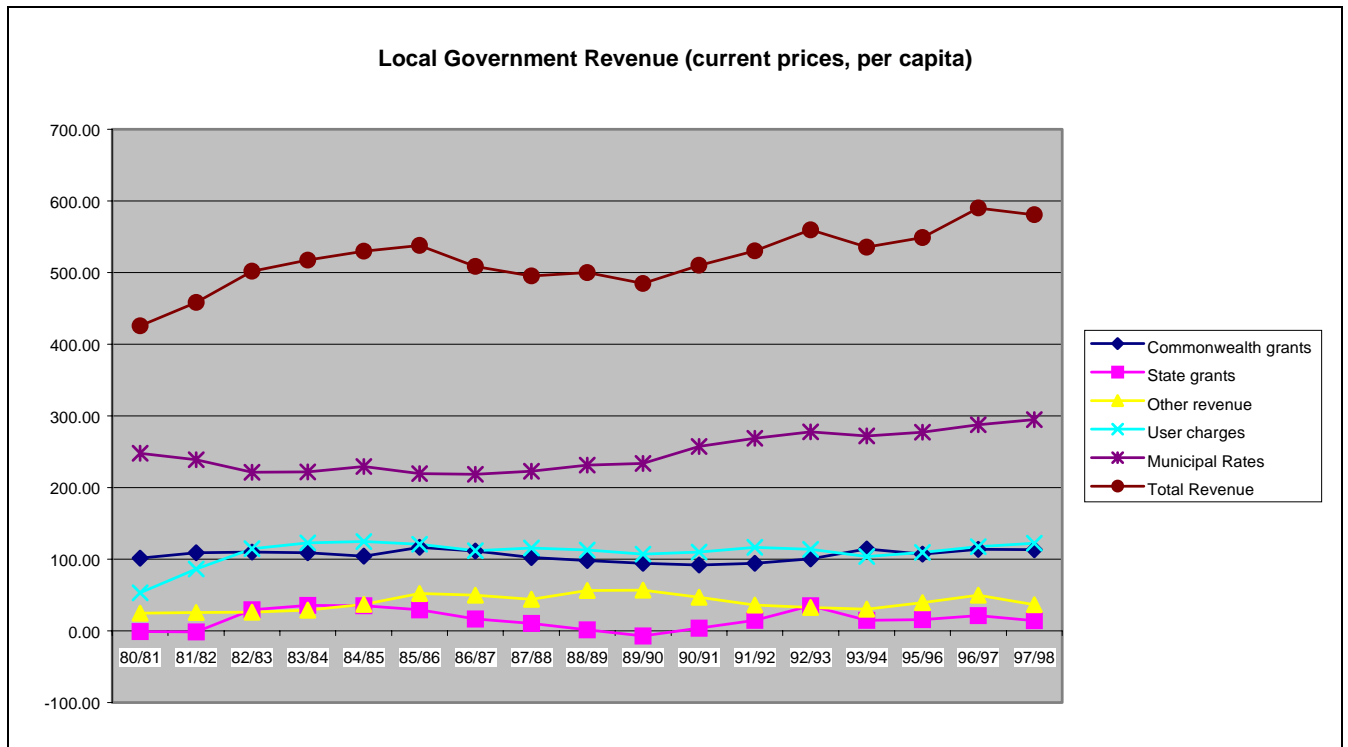
Local Government is opposed to the situation where it is required to raise funds for a particular service such as libraries where it has virtually no say in the provision of the service. Where Local Government is involved in raising the funds it should have an equivalent voice in policy determination for that functional area.

2.1 Revenue

Significant funding is provided to Tasmanian councils through the Local Government Financial Assistance Grants (FAGS). Other benefits from the Commonwealth flow through specific purpose payments such as Roads to Recovery and children's services funding and direct program funding for such things as the Black Spot Program, Regional Solutions and Networking the Nation.

Revenue received from the State Government is negligible. Whereas in the past it has provided grant funding for such activities as recreation, public bodies assistance, employment and water and sewerage subsidies, its direct contribution for these types of activities is now extremely limited. Indeed, the funding that is provided from the State Government generally represents the remnants of programs long since wound up.

Although not a cost shift in its own right, the decision not to continue to assist Local Government with key infrastructure such as water and sewerage places considerable strain on council resources. In the south east of the state in an area long been utilised as a coastal holiday destination, the Sorell Council has found itself needing to put into place a sewerage system for the Lewisham district due to the shift to permanent residency in the area. Assisted by a Commonwealth grant under Coastcare for the capital works, the ongoing per tenement cost is of the order of \$650 per annum. Previous subsidy arrangements from the State Government for this type of scheme would have seen an amount of approximately \$300 per tenement being provided to assist the council. In the absence of that funding, the council is now forced to meet that shortfall.



Source: Commonwealth Grants Commission Working Papers, 2001

An excerpt from the Tasmanian Government Budget Papers for 2002-2003 indicates the following grants were made available to Local Government for the current financial year:

- Direct principal and interest subsidies under the Public Bodies Assistance Act 1971 on borrowings for approved purposes (new infrastructure or redevelopment of existing facilities) – no new loans since July 1989;
- \$1.5 million grants sourced from State Government heavy vehicle motor taxes (in lieu of collection of road tolls);
- \$128,000 disbursed to Local Government bodies as Premier's sundry grants
- Approximately \$930K to Launceston City Council for the Queen Victoria Museum and Art Gallery; and
- \$95k for operation of travel centres (2 councils x \$40k) and 3x5k for tourism development grants

Another major financial flow to Local Government from the State Government is pensioner rate remissions. Rather than being a grant in its own right, the rate remission funding is treated as a through payment under the present State and Local Government Review of Financial Relationships project. Local Government does not directly benefit from the funding. The funding offsets the amount that would otherwise be payable by pensioners if no concession arrangements existed. The amount of funding for this activity in 2002-03 was \$ 14.146 million.

The major source of revenue for Tasmanian councils is derived from rates on properties. User charges, particularly for water and sewerage, are other major sources of revenue for Tasmanian councils.

2.2 Competition Payments

The Agreement to Implement the National Competition Policy and Related Reforms signed by the Commonwealth and States in 1995 provides for the states to receive general revenue grants from the Commonwealth which reflect a share of expected revenue gains to the Commonwealth arising from state's implementation of the National Competition Policy reform agenda. The Commonwealth acknowledged that the benefits to the states from the expanded economic activity arising from economic reform would not otherwise be fully available to them and agreed to three tranches of payment.

The Tasmanian Government has argued strongly that the competition payments did not reflect compensation for complying with the process requirements of NCP and as a result has deemed Local Government not deserving of a share of the payments. The Association has argued that in much the same way as the Commonwealth acknowledged the inability of the states to otherwise benefit from the economic growth through improved productivity gains as a result of their limited revenue raising measures, then so too this should be acknowledged by the State Government in terms of Local Government's ability to directly access the benefits of this new wealth. Not only have Tasmanian councils not received any flow on from the State Government from this windfall but there has been no acknowledgement of the efforts of councils in implementing the NCP provisions. While accepting the long term benefits to the public through improvements in the efficiency of operations, the sometimes significant public outcry at changes to charging regimes for asset usage has left many councils contemplating the broad merits of the "public interest".

At least three other State Governments across the country have acknowledged the role of Local Government in terms of NCP and have provided a share of NCP payments.

2.3 Private Sector Funding

Access to private sector funding of infrastructure has not proven to be a viable option for Tasmanian councils. The requirements for scale and market rates of return have precluded councils from attracting this source of funding. In recent times proposals for aggregating demand for certain infrastructure with a view to attracting private sector equity and/or financing has proved extremely difficult based on the investment cycles of councils and the relative differences in the state of their infrastructure. Scale has long been a problem for projects in Tasmania, even at the State Government level, with opportunities for Build Own and Operate (BOO) or full privatisation of infrastructure limited by the size of facilities and returns available.

2.4 Other Funding Sources

Although Local Government has access to the funding streams above, the lack of growth or capacity to derive more from these sources is limited. A grant scheme or funding stream linked to a federal income or consumption based tax provides an opportunity to improve the equalisation outcomes across the levels of government. Maintenance of the present real per capita arrangements will see increased pressure on other revenue sources available to Local Government. A direct link to either the Goods and Services Tax (GST) or income tax would provide Local Government with an ability to better meet its expenditure pressures. The income elastic nature of these expenditures means that unless there is a more robust growth mechanism in the base revenue arrangements for Local Government, the gap will widen further and the capacity of Local Government to respond will be severely diminished.

2.5 Financial Relationships

The financial relationships existing between State and Local Government are complex and somewhat anomalous in the context of State-Local financial relations more generally. They include:

- Levies and charges on Local Government to fund services by the State in which Local Government has limited, if any, input;
- Various fees and charging arrangements that are not commercially based and are therefore considered to distort decision-making, and
- Various tax exemptions, concessions, specific purpose grants and subsidies that reduce accountability and distort decision-making.

The aim of the State and Local Government Financial Reform project is to simplify and make more transparent financial arrangements between the two levels of government. In doing so, policy decision-making will be enhanced by making it easier to assess the implications of policies under consideration.

Three principles have been endorsed to be followed in the formulation and implementation of reforms from this project. These are financial transparency, revenue neutrality and non-discrimination. The revenue neutrality principle is of particular significance as it requires that reforms do not place either tier of government

at a financial disadvantage. The need to satisfy this constraint may have significant limitations on the final range of transactions that can be reformed.

An issues paper has been prepared, the most significant recommendations being to pursue reciprocal taxation, including the removal of exemptions from State Government taxes and council rates; and State Government levies paid by councils in respect of library services and planning and Local government services should be abolished.

Reform options relating to the exemption of State Government entities from council rates is of particular significance given the vast areas of Crown Land for which there are currently no rates charged. The policy issues relating to this matter are extremely complex and discussion papers are presently being generated on the valuation and rating of Crown Lands. They include consideration of the appropriate rating liability for Government Business Enterprises (GBE's) taking particular account of the types of land tenure that should be valued (and the appropriate valuation approach to be taken) and how rates should be applied to these GBE's given that they manage land which has both a commercial and public good usage.

2.6 Summary

Local Government will continue to rely on its traditional sources of revenue. There are few opportunities to grow these pools and the capacity within each has all but reached its limit. Private sector opportunities will continue to be assessed and partnering arrangements with the State Government for service delivery and infrastructure funding will continue to be pursued.

However, without a link to some form of growth based revenue stream, the pressures on councils to continue to provide increasing services at levels that meet the expectations and requirements of users will be extremely difficult to manage.

TOR 3 The Capacity for 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

3.1 Capacity of Local Government to Meet Obligations

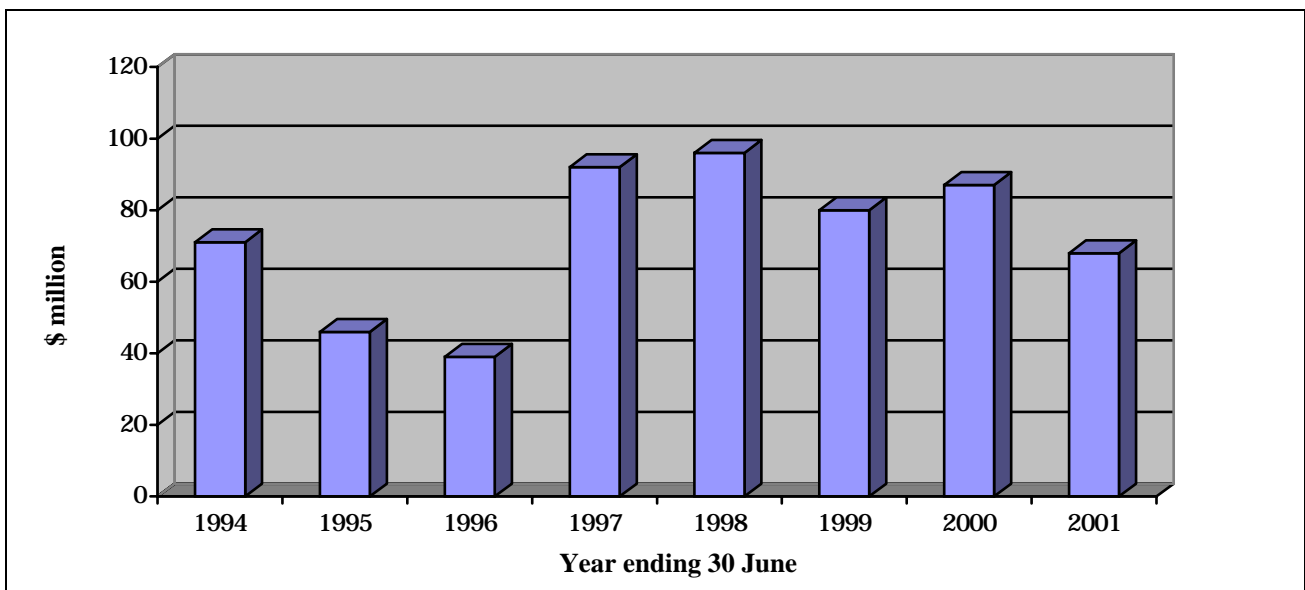
Local Government has significant obligations in respect of the provision and maintenance of infrastructure assets for local communities. This infrastructure is fundamental for the stability and growth of local and regional communities. The capacity for councils to do more in terms of providing services or taking and even stronger leadership role with regard to regional development is limited by its capacity to meet its infrastructure obligations.

A further dichotomy of the Local Government situation in Tasmania, and the rest of Australia, is that, generally speaking, the smaller and more remote the council, the greater tendency there is for the council to be expected to provide a wide level of services. This comes about through the lack of other public or private sector providers and the need to fill the void. Councils are not in a position to consider the private sector provider option of specialising in particular activities or dropping off non-profitable services

3.2 Debt Situation

There is a significant cost to councils in Tasmania for financing water and sewerage infrastructure which is generally not a responsibility of Local Government in other states. Unlike Queensland Local Government that receives a substantial subsidy from the State Government of up to 40% for capital works on water and waste water infrastructure, no such provision or assistance is provided to councils in Tasmania. Standards for water quality are ever increasing and councils have limited rating capacity to meet the additional costs associated with these higher levels of compliance.

Local Government Net Debt (in 2002-03 dollars) - Tasmania, 1994 to 2001



Sources: *Government Finance Statistics*, Australia 1998-99, ABS Cat No 5512.0 and Consumer Price Index, Tasmania, Treasury and Finance Statistics.

The Tasmanian Local Government sector net debt was significantly affected by the transfer of the Hobart Regional Water Board to the Southern Tasmanian councils in January 1997 and an abnormal increase in capital expenditure in 1996-97 due to major construction projects by the Hobart City Council, namely the Hobart Aquatic Centre and the Sandy Bay sewerage treatment project. More recently, there has been a reduction of \$24 million in net debt in the period between the financial years of 1999-00 and 2000-01.

Tasmanian Local Government's comparatively high level of debt to other Local Government's in the country stems from the requirement to finance water and sewerage capital infrastructure. The table below sets out the net debt of the Local Government sector across Australia and shows that the debt situation for most Local Government sectors in other states is negative.

Net Debt Comparison, Australian Local Government

	NSW	Vic.	Qld.	SA	WA	Tas.	NT	Total
Net debt (June 2000) \$m	(\$1,773)	(\$326)	\$1,652	\$213	(\$416)	\$83	(\$39)	(\$607)
Population 1999 (millions)	6.41	4.72	3.51	1.86	1.49	0.47	0.19	18.65
Net debt/capita	(\$277)	(\$69)	\$471	\$115	(\$279)	\$177	(\$205)	(\$33)

Source: ABS Cat. 5512.0,99/00

Local Government financial management is also important with regard to external monitoring of the State Government's financial position. Rating agencies and the Australian Loan Council include local government in their assessments of State Government finances. The opinions of rating agencies have a direct impact on the cost of servicing the State's debt. The State Government must also manage the annual financial performance of the State public sector (including local government borrowing) within the constraints set by the Australian Loan Council. These constraints seek to ensure that the demands placed on financial markets by the public sector, including Local Government, are at a level that will not significantly impact on the availability of capital to the private sector. The constraints also ensure that the various jurisdictions within the public sector are adopting appropriate long-term fiscal strategies.

3.3 Regionalisation

There is a lack of clarity in intergovernmental relations as to responsibilities for roles, functions and finances. Economic structural change is causing governments to review the activities of the public sector in general as well as their respective activities in economic and social developments. The relationship of local demands and needs for services with the ability to pay has resulted in a blurring of the lines over the years. Functional and regional expenditure needs have changed over time.

Local Government in Tasmania has recognised the benefits of working together. More and more councils are sharing resources in the form of expertise and specialist personnel across municipal borders through both necessity (based on cost and volume of activity) and scarcity of resources. Burnie City Council in the north-west of the state has embarked on an innovative sharing arrangement with a number of neighbouring and nearby councils offering bureau services for financial and

information technology services. While largely focused on internal efficiencies, these arrangements allow councils the opportunity to then focus on service delivery to their communities without the worry of yet another financial and resource burden on their agenda.

Tasmanian Local Government has long taken a regional perspective. While largely focused on cooperative effort and sharing experiences of Local Government activity, the tendency has over time been to move to broader functions and activities. These include such activities as tourism and economic development. Although different models have been applied the results to date have been pleasing.

The Cradle Coast Authority (CCA), comprising the nine west/north-west councils in the state has been successful in obtaining \$12 million in funding from Regional Solutions for the establishment of a blueprint for recovery and development of the region. Operationally funded by the councils, the CCA Board draws on private and public sector representation from the region. It is focusing on tourism, economic development, waste management and regional infrastructure issues and is presently implementing a Partnership agreement with the State Government. Its perspective spreads beyond municipal boundaries and seeks to take a whole of region approach to issues. While successful to date in terms of attracting funding to the region and obtaining buy-in and support from industry, it is important to note that the process is fundamentally underpinned through Local Government funding.

The Northern Tasmanian Regional Development Board Limited (NTRDB) is a company in which the eight northern councils have become shareholders and is the organisation through which they expect to coordinate regional activities. Drawing on private sector and Local Government expertise, the new organisation will seek to provide regional leadership in the areas of social, environmental, economic and land use planning activities. Similar to the CCA this new organisation relies heavily on Local Government funding, commitment and representation.

The twelve councils in the southern part of the state have established the Southern Tasmanian Councils (STC) and have been working closely with the State Government in the development of a Derwent River Estuary Program. STC has established a separate waste management organisation and is working on a regional strategy for tourism and economic development. The STC retains a strong Local Government focus choosing to involve other sectors and industry as the need arises.

Partnership Agreements exist or are in the process of being negotiated with the State Government for each of the regional groupings of councils. Aimed at achieving regional outcomes with State and Local Government working together, the types of matters being pursued include regional economic plans and tourism strategies, regional transport plans prioritising transport needs and environmental management initiatives.

With the desire for all levels of government to get closer to their communities it is important that when establishing new governance arrangements that the institution of Local Government is not overlooked. With each new arrangement at the regional and wider local level the resources necessary to administer, coordinate and deliver services is further dissipated. Local Government often finds itself having to become involved in these activities due to the lack of administrative and policy support, council links with the community and the trust and respect that this brings with it, its closeness to the

business community and industry in terms of being able to make things happen and the extensive information resources and networks it has at its disposal.

The areas covered by these regional groupings have been mirrored by the State Government for the establishment/coverage of its Regional Natural Resource Management (NRM) committees. Established to plan prioritise and deliver NRM activities on a regional basis, the State Government has chosen not to utilise the existing organisational structures for the committees.

Acknowledging that Local Government is not the sole stakeholder in NRM, there does exist some potential for duplication or lack of significant input by Local Government into related Commonwealth programs such as the second tranche of the National Heritage Trust funding and the National Action Plan for Salinity and Water Quality.

3.4 Summary

The question of whether Local Government should become involved in regional activities has long since been answered. It has no choice. Pressures at the individual council level to do more with less and the economies of scale and mobilisation of energy and resources that can be achieved through working with others to achieve outcomes makes regionalisation a necessity rather than a choice.

The LGAT considers that earlier and more comprehensive engagement by the Commonwealth with Local Government on delivery mechanisms associated with regional activities is a key matter for consideration by the Inquiry. Maximising coordination, avoiding duplication and ensuring value for money in service delivery must be top of mind issues for the Committee.

TOR 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

4.1 Expenditure by Local Government

The table below provides details of expenditure trends on a per capita real terms basis from 1961/62 to 1997/98. No assumptions are made about the relative comparability of the data within the function groups other than to say that there have been substantial changes to data collections by ABS over the last forty years and the general treatment of matters such as depreciation potentially distort the overall situation.

Local Government Expenditure Patterns (1961-62 to 1997-98)

Expenditure	1961/ 62 (%)	1971/ 72 (%)	1981/ 82 (%)	1991/ 92 (%)	1997/98 (%)	% change since 81/82
Transport and Communications	48.61	38.82	33.5	29.57	24.32	-27.4
General Public Services	19.02	21.02	16.68	17.86	17.24	3.35
Education, Health, Welfare & Public Safety	3.72	5.8	7.08	7.93	8.43	19.1
Recreation and Culture	13.74	14.61	18.56	14.88	17.21	-7.27
Housing & Community Amenities	8.36	8.84	10.26	17.97	23.68	130.8
Services to Industry	0.058	0.05	0.01	0.02	0.01	0
Other Purpose	5.98	10.87	13.91	11.77	9.11	-34.51

Source: Commonwealth Grants Commission Working Papers, June 2001

The most significant point to make from the above table is that Local Government expenditure on Transport and Communication has reduced by half since 1961/62. Nearly 50% of total Local Government was concentrated on the provision of transport and communication services to the local community, which would be consistent with the old adage of "roads, rates, rubbish". However, in 1997/98 (last year of data) the expenditure of Local Government revenue on transport and communication is less than a quarter of total expenditure, yet it is reasonable to assume the network of roads, transport and communication requirements have only increased.

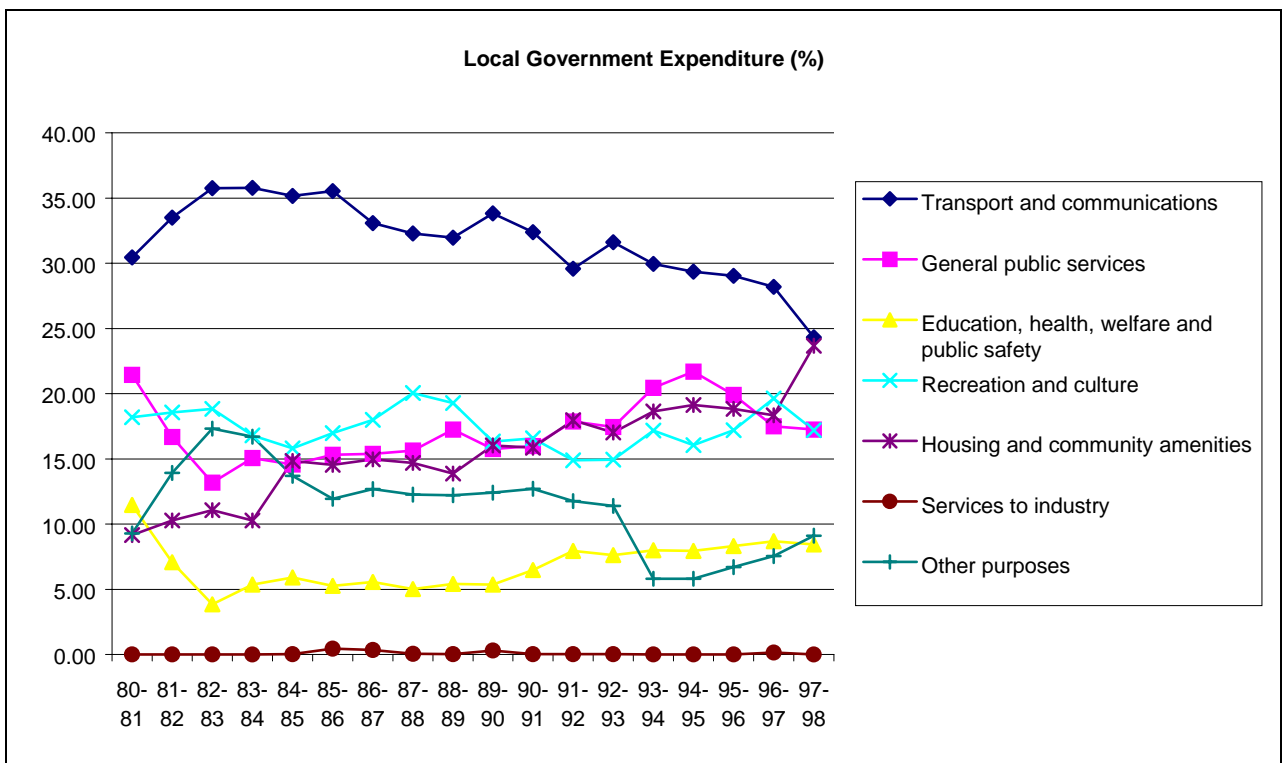
Another significant change in Local Government expenditure over the last 40 years is the expenditure on Housing and Community Amenities; 8.36% in 1961/62 to 23.68% in 1997/98. An increase of 183%. Nearly the same level of funding was spent on housing and community amenities as transport and communication in 1997/98.

Expenditure on Education, Health, Welfare and Public Safety has increased 126% to 8.43% of total Local Government expenditure since 1961/62 yet these services are supposed to be the responsibility of the State Government in Tasmania.

Funding for other purposes increased significantly from 1961/62 to 1981/82 (132.6%), however, since 1981/82 funding has decreased 34.51%. The overall increase in funding for other purposes increased 52% from 1961/62 to 1997/98.

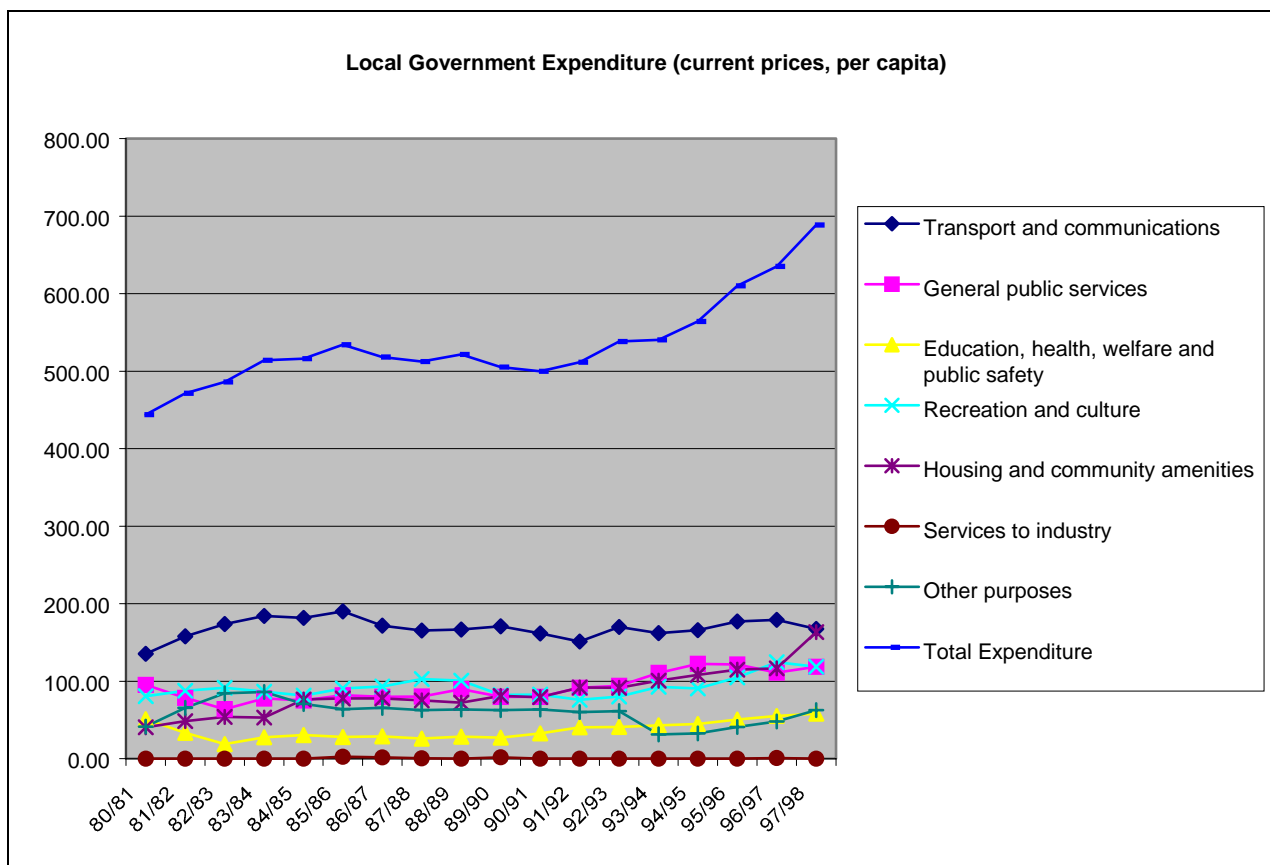
As a result of Local Government significantly increasing funding of Housing and Community Amenities, and Education, Health, Welfare and Public Safety funding for Transport and Communication and Recreation and Culture has decreased considerably since 1981/82 (and 1961/62). This analysis fully supports the issues that Local Government is experiencing with infrastructure and the demands of communities and other spheres of government today.

The table below shows the shifts in category expenditure over the seventeen year period from 1980/81 through to 1997/98.



Source: Commonwealth Grants Commission Working Papers, June 2001

Local Government expenditure as a whole has increased by \$244.67 p.a. per capita since 1980/81 which is an increase of 55.11% over 17 years. The most significant component is an increase of 301% for Housing and Community Amenities expenditure. All other areas of local government expenditure increased significantly, excluding Services to Industry, which decreased by one cent per capita over 17 years, yet represents a decrease of 20% (inconsequential).



Source: Commonwealth Grants Commission Working Papers, June 2001

It is clear from the tables and charts above and below that Local Government Expenditure has significantly increased and transformed since 1980/81. It would be fair to conclude that the role and responsibilities of Local Government in Tasmania have evolved over time to include new and extended obligations to the community. This has resulted in Local Government having to reassess the distribution of Local Government funding to cater for these increased obligations.

Local Government Expenditure

Expenditure Type	1980/81 current prices, per capita	1997/98 current prices, per capita	% Change
Transport and Communication	\$135.20	\$167.51	24.4%
General Public Services	\$95.21	\$118.71	24.7%
Education, Health, Welfare and Public Safety	\$50.86	\$58.06	14.17%
Recreation and Culture	\$80.77	\$118.51	46.73%
Housing and Community Amenities	\$40.66	\$163.09	301.17%
Services to Industry	\$0.05	\$0.04	-20%
Other Purpose	\$41.24	\$62.76	50.18%
Total Expenditure	\$444.00	\$688.67	55.11%

Source: Commonwealth Grants Commission Working Papers, June 2001

Local Government has been forced to redistribute and reallocate its funding to cater for the increased demands placed upon it by communities and Federal and State Governments.

4.2 Impacts of Changes in Powers, Functions and Responsibilities

Although “cost shifting” between State and Local government is a major focus of this Inquiry, a precise definition of the term “cost shifting” has not been articulated. In its simplest form, the term could represent an increase in the cost to Local Government without any offset benefit. In the absence of guidance on this question, it is considered that in the context of this Inquiry, from the perspective of Local Government “cost shifting” likely refers to situations of three types:

- an increase in the expenditures required by councils as a result of an explicit and complete transfer of responsibility from the State Government to councils, without a compensatory transfer of funds. This could involve a decision by the State to no longer undertake an established function in terms of the whole State, or in terms of a particular asset or service in a specific geographic area;
- an increase in the expenditures required by councils as a result of rationalisation of services by the State Government. The withdrawal of particular services may happen incrementally and may not necessarily be directly attributable to a stated public policy; or
- an increase in the expenditures required by councils as a consequence of the State Government imposing new (and possibly more stringent) regulations on an activity for which local government has responsibility.

In the case of Tasmania there are few examples of the first situation where a complete transfer of a functional responsibility from the State to Local Government. The most significant case in recent times was the decision by councils to accept responsibility for bridges on Local Government road networks. Until the early 1990’s these had been the responsibility of the State Government, but the current arrangement is that individual projects on these assets below \$1.5 million are to be undertaken by councils. Despite this, the additional responsibility of councils was offset by the provision of State Government funding.

In more recent times the State Government has been reluctant to respond to increased demand for traffic lights. Increased urban development, changed use or zoning in particular areas brings with it a pressure for alternative or additional traffic and pedestrian control measures. Traditionally, the State Government has had control of traffic management in Tasmania. However, it has recently taken the position that there is a budgetary limit to its activity and a finite asset capability. Requests from councils for traffic control devices that do not fit with the State’s priorities are often declined with councils having to meet the cost of providing and maintaining these new facilities.

In regard to assets or services in particular geographic areas, the State Government has decided in a number of cases that continued provision is not a high priority in the face of competing demands on agency budgets. These have included policies to close some hospitals and medical facilities in regional areas where operations could not be justified on any grounds. While the State Government in taking such decisions has been responding to cost pressures, due to public pressure, in some instances councils have taken a policy decision to take over assets deemed unviable by the State to

ensure that they are maintained. In such situations councils consider that they are being forced to act involuntarily, and therefore “cost shifting” has taken place. Often this may entail councils adopting policies that are not tenable in the interests of long-term financial sustainability.

The explanation for the second situation above is also found in the increasing scrutiny of State Government finances as service delivery costs have grown at a greater rate than the sources of revenue available to fund them. Services and amenities which were once deemed to be required in the public interest have been reassessed and subject to a more rigorous cost-benefit analysis. In some cases this has led various departments to downscale (or cease altogether) certain activities no longer regarded as central to their defined roles and responsibilities. Another example is the cessation of police being provided for security at public events.

Similarly, the factors underlying the “cost shifting” of the type described under situation 3 are common to governments at all levels, and have emerged as a consequence of the general increase in standards of amenity and accountability expected in public affairs.

In the case of Tasmanian councils the imposition of higher standards has been particularly notable in relation to environmental issues such as waste management and water quality. The expectations of the State Government as the regulator require Local Government, in functions for which it has the ultimate responsibility, to adopt practices that the State Government considers are important for the wider public good.

The table below outlines a range of “cost shifts” across a broad spectrum of activities derived from the survey responses from councils. While financial data was presented by many councils for a large number of these activities, aggregation of the data would not appropriately represent the level of “shift” in these areas across Local Government.

TRANSPORT	
Traffic Lights	Previously a responsibility of the State Government, the responsibility for new facilities is increasingly being moved to councils. In addition to the substantial capital cost, ongoing maintenance places considerable strain on councils
Heavy Vehicles	<p>The introduction of the national heavy vehicle licensing regime resulted in Local Government foregoing access to timber and mineral tolls. In the place of that source of income, sharing arrangements of all heavy vehicle licensing fees collected by the State Government was agreed. The agreement has two aspects. Firstly, Councils are recompensed for licensing fees paid for heavy vehicles. Secondly, a share of collections is distributed back to Councils under a formula managed by the State Grants Commission.</p> <p>Initially, it was agreed that total licensing receipts would be shared on an 85% (for the State) and 15% (for Local Government) formula. The initial distribution was based on fees collected at 1996 levels. Whilst the formula has been retained, the quantum of funds in the pool has not been adjusted to reflect changes in license receipts over the ensuing four or so years. This is despite numerous representations and submissions by Local Government.</p> <p>The Association considers the present situation inequitable and not in the spirit of the original agreement and believes that the distribution arrangements should appropriately reflect the actual amount being collected rather than the artificial</p>

	level currently being applied.
Jetties/Boatramps	Traditionally the responsibility of the State Government, maintenance and repair by the State concentrates on strategic and fishing facilities. Councils find themselves responding to pressures from communities and recreational users to upgrade and maintain the facilities although they are not the owners of the asset.
50kmh speed zoning	A decision by the State Government to reduce urban speed limits across the State from 60kmh to 50kmh resulted in a significant one-off cost for councils. Although costs were shared in the exercise, the initial decision taken was not in consultation with councils
Airports	At least four councils in the State have taken over ownership of local airports. While funded by the Commonwealth for initial upgrading, ongoing support for maintenance has not been forthcoming. At least 2 of these councils are island municipalities and have been subject to significant uncertainty and cost in terms of ongoing air services and the costs associated with the collapse of air service providers.
HEALTH	
Needle Disposal	The State Government strongly supports a needle exchange program which is also supported financially by the Commonwealth. While acknowledging the benefits of the program, councils are left with the responsibility for needle collection and disposal with no financial support from any source.
Rural Health – doctors/dentists	Many councils find that in order to attract/retain health/dental professionals they are required to supplement the package on offer for doctors. This ranges across municipalities in Tasmania with some making direct cash contributions to wages, others providing free housing and surgery facilities while others provide a motor vehicle. Although strictly speaking there is no responsibility for this activity by councils without this assistance the service is not available
Immunisation	Councils are required to purchase specific software and conduct regular clinics within the community for a function that has nothing to do with standard council operations. The closeness to the people factor associated with Local Government has seen councils picking up the responsibility for immunisation but without recompense.
Public Health	Continuing increases in standards and practice improvement require councils to regulate wider ranges of premises and to regulate more activities across those premises. No consideration is given to councils' propensity or capacity to resource these requirements and funding does not flow to assist with this regulatory effort.
COMMUNITY DEVELOPMENT	
Youth Services	Increasing rates of youth unemployment coupled with rises in youth crime have led to councils taking an active role in the provision of programs and support mechanisms for young people in their communities. Traditionally a community welfare activity with funding responsibility at both the State and Commonwealth level, councils are placing significant resources into improving the opportunities for youths in their communities.
After School Care	More a problem in rural areas than urban areas, councils find

	that they are having to provide services that were traditionally provided through the school system. Private providers often don't exist in non-urban areas with councils having to step in to ensure that the communities needs are met.
Aged Care	A number of councils are contributing resources to the provision of infrastructure and support for aged care facilities as a result of limitations in funding from the Commonwealth.
PUBLIC SAFETY	
Policing	Key elements associated with policing are the matters of crime prevention and public safety. Many councils in the state concerned with these matters have sought to ensure community safety in public areas such as malls and central business districts in particular. The inability of the Police Department to provide the physical presence necessary to deter criminals has resulted in actions by councils, often in partnership with local businesses, to install video surveillance cameras. Such action results in costs being incurred by councils to combat a problem that has traditionally been the domain of the State Government. abandoned vehicles, animals
Animal Control	Traditionally responsible for the impoundment of stray dogs, councils have seen their role in dog control extended substantially with legislative provisions requiring the development of dog policies, dog registration, exercising dogs, faeces removal and impoundment. Significant resources are required by each council for this task with no funding provided by the State Government. User charges offset the associated costs of operation.
PLANNING & ENVIRONMENT	
Weed Management	Aimed at facilitating a strategic approach to weed management the <i>Weed Management Act 1999</i> brought with it a significant reduction in State Government resources to combat this significant problem. Requiring the community, industry and all levels of government to do their bit, the legislation, in the absence of adequate resourcing by the State Government, represents a significant impost on Local Government in terms of coordination, leadership and enforcement. No funding is provided for council involvement in this management and coordination.
Air Quality	The introduction of a State Air Policy brings with it new and added responsibilities for Local Government including wood heater installation inspection, smoke monitoring and the general monitoring of air quality. While traditionally having responsibility for emissions associated with Level 1 activities, particularly in industry and business areas, the extension of this monitoring/oversight to domestic activities brings with it significant resourcing implications and without funding from either the State or Commonwealth Governments.
Noise	A proposed Environmental Protection Policy associated with noise is presently being developed by the State Government. While the broad aims are generally supported by Local Government the resourcing required by councils to effectively enforce the provisions of the policy are dramatic and without funding support.
Hazardous Waste Disposal	A fundamental responsibility of the State Government, the absence of a dedicated facility in the State or adequate

	procedures to otherwise dispose of such waste means that a number of councils have to dispose/accept hazardous waste. The disposal is costly and represents significant effort and resources for Local Government and places limitations and pressures.
Water Monitoring	With the adoption of increasing national and international standards by the State and Commonwealth Governments councils are required to monitor domestic and wastewater with increasing regularity and at significant cost.
Planning Regulation	The State Government has involvement in the operation of Local Government through the Local Government Division of DPAC and through DPIWE, which both have policy, regulatory and advisory roles. Local Government contributes to the cost of providing these services through a planning and Local Government levy equal to 0.15 cents per dollar of the total adjusted assessed annual value of all rateable (non-exempt) land in their municipality. In 2000-01 this contribution totalled \$2.7 million. This arrangement is mandated by the State Government. Up until the 1980's significant resourcing of planning administration was provided through the Town and Country Planning Commission with extensive service and support to Local Government. Many of these functions have now been devolved to Local Government but the fee structure remains in place. The issue is subject to the present review of financial relations.
Agricultural Land Capacity and Land Stability	The decision by the Department of Primary Industries, water and Environment and Mineral Resources Tasmania to withdraw services associated with the provision of independent advice to Local Government in the areas of agriculture and land stability has necessitated councils to source that information from private consultancies resulting in a consequential shift to Local Government

There are also a range of functions and activities where requirements of Commonwealth or State Government legislation have resulted in significant compliance and administration costs for Local Government. These include:

- processing applications under the Historic Cultural Heritage Act;
- waste water treatment plant upgrade requirement for nutrient removal;
- landfill licensing fees and monitoring;
- national pollution inventory;
- adherence to waste management and recycling standards; and
- building control.

4.3 Constitutional Recognition

Local government is the principal means by which local and regional communities express their identity, enhance their well being, care for their environments and relate to Commonwealth and State Governments. Local Government is committed to the principles of local democracy, peace, social and economic justice and ecologically sustainable development.

Australia's constitution must recognise that the Federal system has three spheres of government working in partnership. Local Government is not presently recognised in

the Australian Constitution. The legal framework for council operations in Tasmania is provided by the Local Government Act 1993 and recognition is provided for Local Government in the Tasmanian Constitution Act. Constitutional recognition in the Commonwealth act will:

- Guarantee the role of Local Government across Australia ensuring people have democratically elected officials at the local level who will provide services that meet local community needs;
- Ensure elected representatives cannot be replaced by State appointed administrators guaranteeing Local Government is run democratically by locally elected representatives;
- Confirm Local Government's role as an integral part of the public sector;
- Not erode the power of State Governments and State Parliaments will still determine how and where Local Government operates; and
- Strengthen the system of decentralised community based government ensuring communities are governed at the appropriate level and that local solutions are developed and adopted where appropriate.

4.4 Summary

Local Government's expenditure patterns reflect the significant changes in its roles and responsibilities over the past several decades. The significant shift to the provision of human services represents a major response by Local Government to addressing new and emerging needs of communities, picking up functions previously provided by State and Commonwealth Governments (and the private sector) and extending the breadth of services formerly provided by Local Government. These shifts have generally occurred without corresponding sources of funding.

TOR 5 The Scope for Rationalisation of Roles and Responsibilities Between the Levels of Government, Better Use of Resources and Better Quality Services to Local Communities

5.1 Changing Roles and Responsibilities

The task of reviewing, analysing and negotiating changes to the various roles and functions between State and Local Government has been commenced on a few occasions in Tasmania but has never been completed as an exercise due to the complexity, size and broad difficulty of agreeing on which roles and responsibilities should sit where. At the margins, there has been agreement on such matters as exchanges of roads and a range of matters agreed via the Partnership Agreement process but there is now an almost unanimous view that to revisit the broader task would be too large, too time-consuming and too difficult.

At an individual council level there are a range of matters that have been identified as possible alterations to the existing arrangements between State and Local Governments. These include such activities as:

- Incorporating approval mechanisms for private forestry activity into the planning scheme approval processes;
- Councils undertaking State Government road maintenance and public housing maintenance activities to allow better utilisation of resources;
- Councils undertaking specific works (maintenance and construction) in State National Parks; and
- Environmental regulation at a State Government level where uniform application is necessary and equity is desirable.

While many such examples are being considered by councils for inclusion within Partnership Agreements with the State Government, by definition, the only things that can be included in those agreements are factors which are agreed by both parties. In many instances it is not and will not be possible to achieve agreement for reasons of cost, resourcing or practicality.

5.2 Key Performance Indicators

In October 2001 a system for measuring Tasmanian council performance was launched.

This new system allows Tasmanian residents and councils, for the first time, to easily view the performance of councils. The second report under this program, for 2000-01, was released on 9 April 2002.

A feature of this project is that all 29 Tasmanian councils provide data voluntarily. Similar projects in other States rely on a more prescriptive approach.

Fifty key performance indicators (KPIs) provide an industry wide framework for measuring and comparing the performance of councils. The KPI system seeks to:

- Enhance performance measurement by councils
- Enable benchmarking and identification of best practice
- Improve accountability to the community

- Establish performance trends over time

Performance measures used in the KPI system look at:

- Governance
- Management and finance
- Regulatory
- Infrastructure and utilities
- Community services and development

When looking at these performance measures it is necessary to consider various factors that can influence each indicator so that comparisons are valid. The reports include sufficient statistical information to provide an accurate snapshot of councils at a point in time. However, caution should always be exercised in comparing the results from two or more councils, because the needs of communities differ and the ways in which Councils provide local services makes valid comparisons difficult.

5.3 Improved Use of Resources

Recent experience with Commonwealth Government programs has demonstrated the benefits of the Commonwealth having a direct relationship with Local government. The Roads to Recovery program mobilised in excess of 700 councils nationwide to identify, program and manage the funding of extensive and complex road programs. Minimal administration, reasonable criteria, a swift approval regime and a commitment to the program by councils and Commonwealth agencies streamlined the effort that would normally be associated with a funding program of such scale.

Compare this to the Black Spots and the National Heritage Trust programs. Both involved significant resourcing and administration at the State level with councils and communities required to submit detailed and complex applications, meet stringent criteria and be subject to extensive and arduous approval processes. Neither needs to be. A simplified approach through the development of a similar relationship as that associated with Roads to Recovery would likely net similar results. Already we are seeing complex arrangements being established under the Natural Resource management (NRM) framework to develop what is notionally termed NHT2. A strategic but simpler approach would likely provide speedier, relevant and sustainable outcomes at the local level and the Commonwealth Government needs to give consideration to such factors when developing new programs or realigning old ones.

5.4 Summary

Local Government is subject to greater scrutiny and accountability than ever before. Consultative mechanisms such as community input to strategic plans, the conduct of Annual General Meetings where ratepayers and residents are encouraged to attend and participate and the public availability of indicators that enable people to make judgements on the performance of councils require councils to perform at higher levels than ever before.

Councils are not reluctant to serve their communities and will willingly take on roles that best meet the needs and desires of those communities, even if it means providing the service itself. History has shown that going back to first principles to sort out who is actually responsible for what and then agreeing to fund the arrangements simply does not work. So everyone needs to be smarter. Councils will no longer take on roles

from other spheres of government unless there is a corresponding funding flow. If responsibilities being undertaken by another sphere of government are transferred to Local Government, the funds, or the source of funds necessary to provide them should also be negotiated.

All governments are seeking to serve their communities but the methods of delivery of the services through cumbersome administration and convoluted programs needs to be simplified and streamlined to allow maximum benefit on the ground. Local Government wants to participate in these processes and urges the other spheres of government to consider these issues before embarking on new funding and program initiatives.

TOR 6 The Findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 for June 2001, taking into Account the Views of Interested Parties as Sought by the Committee.

The Association generally supports the findings of the Commonwealth Grants Commission in its draft report on the Review of the Operation of the *Local Government Financial Assistance Act 1995*.

The decision by the Whitlam Government in 1975 to introduce a system of untied grants for Local Government to give it a share of the nations finances has long been applauded by Local Government and communities alike. It was considered by many to be the first stage in a process to Local Government attaining formal status in the Australian Constitution as the third sphere of government.

This has not eventuated nor has the fundamental proposition of resolving the problems associated with vertical fiscal imbalance. The Whitlam Government heralded the untied grants program as being the remedy for such ills across the country but until such time as Local Government has access to some form of growth tax, the problem will not only remain but continue to grow. This aspect was not one within the terms of reference of the review of the above legislation.



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o f t a s m a n i a

SURVEY OF TASMANIAN LOCAL GOVERNMENT

On

COMMONWEALTH INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

Background

The Federal Minister for Regional Services, Territories and Local Government has asked the House of Representatives Economics, Finance and Public Administration Committee to inquire into cost shifting onto local government by State Government and the financial position of local government.

This Inquiry will include an examination of:

1. Local government's current roles and responsibilities
2. Current funding arrangements for local government, including allocation of funding from other levels of government and unitisation of alternative funding sources by local government.
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.
4. Local government expenditure and the impact on local governments financial capacity as a result of changes in the powers, function and responsibilities between state and local government.
5. The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 for June 2001, taking into account the views of interested parties as sought by the Committee.

Minister Tuckey has also linked the issue of constitutional recognition of Local Government to the Inquiry.

The LGAT is seeking an urgent response to the attached questionnaire to assist with the preparation of a submission on behalf of Local Government in Tasmania.

The Inquiry requires initial submissions by the 26th of July, although the Inquiry is not expected to report until mid 2003. While LGAT will lodge an initial submission by 26 July, 2002, the data from this survey will form part of a supplementary submission lodged in August/September 2002.

Response to the attached questionnaire by 9 August is therefore requested.

Question 1. Regional Arrangements (TOR 3)

- a) Could you please provide details of your financial contribution to activities carried out through regional arrangements (including annual subscriptions, if any) over the last five years (please include contributions to all activities undertaken through a specific regional organisation, not just through a ROC (eg Economic Development Board, River Improvement Trust etc).

Type of Regional Arrangement Activity	1997/98 \$ Outlay	1998/99 \$ Outlay	1999/00 \$ Outlay	2000/01 \$ Outlay	2001/02 \$ Outlay
Subscription to Regional Organisation					
Regional Development					
Regional Tourism					
Regional Community Development					
Regional Natural Resource/Pest Management					
River Improvement activities or similar					
Other (please specify)					

- b) With the withdrawal of Commonwealth and State Government offices and activities from regional areas and a greater focus on centralised service delivery, have there been any apparent effects on councils or the regional body needing to supplement/take up these functions.

- c) Do you consider there is scope for more regional level activities involving Local Government to provide enhanced outcomes and improved services for communities, including more effective use of resources?

Yes No If Yes, what opportunities do you consider exist:

Question 2. Agency Arrangements

Could you please identify below specific contract works (and value on 2001/02) undertaken for State, Federal or other semi-Government agencies. This relates to reimbursable works undertaken on a fee for service basis for these other bodies.

Agency	Nature of Activities	Value of Contracts (2001/02)
DSD (inc Tourism Tas)		
DPIWE (inc Service Tas)		
DIER		
DOTAF		
DPAC		
DEA		
DHHS		
Hydro Tas		
Aurora		
Telstra		
Other (specify)		
Other (specify)		

The following two questions are seeking to establish the types of shifts that have occurred between the levels of government. The shifts have been divided into two categories – “Discretionary” – where a decision has been taken by council as being in the public good or in line with community expectations – in other words, by choice. Discretionary may also include to situations where councils have had to pick up functions as a result of either a withdrawal of a service from the area or a significant reduction in the provision of the service, in other words, by default. The second category relates to the notion of unfunded mandates, where councils are now required by virtue of legislation or policy change to undertake tasks that were previously the responsibility of others – in other words – by decree.

Question 3. "Discretionary" Activities

Could you please identify below, specific functions and activities (and value in 2001/02) undertaken by your council which would not normally be regarded as an activity of local government, or would typically be provided by a State or Federal agency (including corporatised/privatised organisations) elsewhere in Australia. The reason for involvement could be inadequate or non-existent services, council choice or community expectation.

Function	By Choice or By Default	Nature of Activity	Outlays (2001/02)	Revenue 2001/02 (if any)
Tourism				
Animal Control				
Economic Development				
Community Development <ul style="list-style-type: none"> ▪ Youth services ▪ Recreation (not including infrastructure) ▪ After School care 				
Environment <ul style="list-style-type: none"> ▪ Noise ▪ Noxious Weeds ▪ Air <ul style="list-style-type: none"> - Woodheaters ▪ Water <ul style="list-style-type: none"> - Signs - Storm Water - Cleaning - Monitoring ▪ Coastal ▪ Rate Rebates (forestry) ▪ Waste ▪ Whale removal from beaches 				
Public Safety (including crime prevention)				
Health <ul style="list-style-type: none"> ▪ Public Health ▪ Rural health (including financial support for doctors, dentists, etc) ▪ Health centres/hospitals ▪ Drugs/needles ▪ Immunisation 				
Education				
Aged Care (facilities and services)				
Transport <ul style="list-style-type: none"> ▪ Airports ▪ Jetties/boat ramps ▪ Traffic lights ▪ Skate boards 				
Emergency Services and Planning				
Unemployment				

<ul style="list-style-type: none"> ▪ Work for the Dole ▪ Community Orders 				

Question 4. Devolution of Responsibilities (TOR 4)

The following question seeks to identify both costs imposed on Local Government through transfer from Commonwealth or State Governments (part a) as well as costs resulting from increased compliance or administrative requirements of other spheres of government (part b).

Please identify below those functions or activities that you consider have been devolved from the State or Commonwealth in the last ten years and have resulted in increased financial burdens (eg environmental responsibilities, emergency services etc)

Function	Nature of Activity	Outlays (2001/02)	Revenue 2001/02 (if any)
Tourism			
Animal Control			
Economic Development			
Community Development <ul style="list-style-type: none"> ▪ Youth services ▪ Recreation (not including infrastructure) ▪ After School care 			
Environment <ul style="list-style-type: none"> ▪ Noise ▪ Noxious Weeds ▪ Air <ul style="list-style-type: none"> - Woodheaters ▪ Water <ul style="list-style-type: none"> - Signs - Storm Water Cleaning - Monitoring ▪ Coastal ▪ Rate Rebates (forestry) ▪ Waste ▪ Whale removal from beaches 			
Public Safety (including crime prevention)			
Health <ul style="list-style-type: none"> ▪ Public Health ▪ Rural health (including financial support for doctors, dentists, etc) ▪ Health centres/hospitals ▪ Drugs/needles ▪ Immunisation 			
Education			
Aged Care (facilities and services)			
Transport <ul style="list-style-type: none"> ▪ Airports ▪ Jetties/boat ramps ▪ Traffic lights ▪ Skate boards 			
Emergency Services and Planning			
Unemployment			

▪ Work for the Dole			
▪ Community Orders			

a) Could you please identify other functions and activities where requirements of Commonwealth or State legislation have resulted in increased compliance/administrative costs for Local Government over the last ten years. Could you also estimate the additional annual compliance costs you believe are associated with each activity identified.

Activity/Function	Additional Annual Compliance Cost

b) In relation to both the devolution of responsibilities (part a above) or the additional compliance and administrative costs (part b above) could you please estimate the number of additional staff required (if any) to meet these additional responsibilities over the last ten years.

Estimated additional staff required for (a) and (b) above: _____

Question 5. Rationalisation of Roles (TOR 5)

a) Are there any specific areas of service provision in your local area which are currently undertaken by State and Commonwealth Government departments or agencies which you feel could be better undertaken by your Council in terms of better use of resources and better service outcomes?

Yes No

If 'yes' could you please identify the specific services or functions you are referring to.

Function/Service	Why better outcome?

b) Are there any specific roles of Local Government that you consider would be better undertaken by the State or Commonwealth Governments?

Yes No

If 'yes' could you please identify the specific services or functions you are referring to.

Function/Service	Why better outcome?

Question 6. Other Issues

Are there any other issues relevant to funding arrangements for Local Government that you consider are important to bring to the attention of this Inquiry? If so, what are they?

Question 7. Other Comments

Do you have any additional comments to make in relation to this Inquiry and to its Terms of Reference, or any particular points you would like to see made in the LGAT submission to the Inquiry?

Council _____ *Contact Person* _____ *Ph:* _____