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The Secretary
House Economics Committee
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

AT THE CROSSROADS

Attached is a response from the Central West Regional Organisation of Councils (CENTROC) to the Discussion Paper.

CENTROC is impressed by the depth of work and realistic appraisal by the Committee.

Yours sincerely



Alan McCormack
SECRETARY

5 May 2003

House of representatives Standing Committee on Economics, Finance and Public Administration	
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RESPONSE TO DISCUSSION PAPER – AT THE CROSSROADS

Chapter 3 – Changing Role of Local Government

CENTROC responds to the specific questions asked in Chapter 3 in the following manner:

1 *Is there a need for significant changes to Local Government's current package of roles and responsibilities?*

Response: CENTROC does not see a need for significant changes to these roles and responsibilities.

It is CENTROC's belief that local Councils are in many cases the best, and in some cases, the only authority, that can carry out the multitude of services.

In some of the smaller towns State Government agencies simply do not exist and the Council is regarded as representing all levels of Government.

Councils are generally regarded as good providers of public services. They operate without the bureaucracy and red tape of the larger organisations. They are usually more attuned to the needs of their community and have the ability to respond more quickly. For example, the New South Wales State Government at this point in time will take months to process road closing applications and applications for acquisition of land. Councils may deal with complex developments in a short period but are frustrated by State Government delays.

What Local Government has consistently said is that it can undertake the roles and responsibilities it currently has but it cannot do so without adequate finance. This is where Local Government is in a bind.

The question of unfunded mandates must be addressed.

2 *Should there be greater differentiation of responsibilities between larger, better resourced Councils and those with small populations and limited revenue?*

Response: The view of the CENTROC group here is that this may not necessarily be the case.

As mentioned previously, Councils in smaller areas are often the only interface local communities have with any form of Government. Those smaller Councils undertake tasks directly on behalf of the State Government, eg, driver licensing.

In fact, in the less populated areas there would be more demands on Councils for services because people simply have no other avenue to attain such services.

It is generally felt that the larger Councils are better resourced. However, their financial pressures may be relatively greater than the smaller Councils.

Work by Parkes Council, following Financial Conferences at Parkes, indicates that the infrastructure status of some of the larger Councils may be in fact more of a problem than those of the smaller Councils.

Infrastructure is looming as a grant headache for Local Government. Whereas most Councils are aware of their cash positions, they are not adequately aware of the state of their infrastructure. Our figures show that it would require around \$6.8 billion to restore the infrastructure of New South Wales Local Government. (See Executive Summary attached.)

The point is that a reasonable cash position may only mask a huge problem.

3 *Is there a need in some regions for restructuring to improve the viability of Councils?*

Response: The CENTROC group of Councils is a diverse group of Local Government authorities ranging from three cities down to smaller populated areas. Within the group Councils obviously hold different views and could present cases for arguments both for and against restructuring. It would not be appropriate for CENTROC representing all those Councils to proffer a view on this question.

4 *Is cost shifting a growing problem?*

Response: The answer to this is categorically yes. The CENTROC group canvassed its members regarding this problem and can provide many specific examples.

Prominent in these is the need for Councils now to be involved in the health issues (attraction of doctors and medical professionals), assistance with policing, youth issues, community services, companion animals, onsite sewer and planning. I am enclosing a list submitted by a CENTROC Council – Bathurst City – which that Council believes reflects cost shifting. That list is extensive.

There are also some one-off examples which are ludicrous and extreme, eg, Parkes Shire Council was required to reconstruct a fish ladder on an ephemeral stream. The cost of the reconstruction of this crossing was \$50,000 but the Department of Fisheries insisted on a fish ladder to be built and paid for by Council at an additional cost of \$100,000.

5 *Are there examples of successful State-Local Government arrangements to deal with cost shifting?*

Response: CENTROC can offer no examples of successful State Government arrangements to deal with cost shifting. There may be some isolated examples, but they are subordinate to the trend in the opposite direction.

6 *How might the Commonwealth promote a more comprehensive approach to reducing cost shifting?*

Response: Clearly the Commonwealth's approach has to be through its financial strength.

Arrangements with the State should be conditional upon a fair deal for Local Government. This may be a most obvious and simplistic approach but sometimes such an approach is the only one.

7 *What specific steps might be taken to generate significant increases in income from Local Government's established revenue base?*

Response: Clearly Local Governments need some access to a growth tax. Again, in simple terms, this could be a defined share of the GST.

To reflect on history, in the 1970s Local Government was actually given 1.52% and later 2.0% of personal income tax collected. Since that time the percentage has been diluted to around 0.6%. This would mean millions of extra dollars to Local Government Councils. Work by CENTROC has shown that if the 2.0% had been maintained CENTROC Councils would receive an average additional grant of \$3.9 million (the annual average grant is \$1.72 million).

Councils in New South Wales have been disadvantaged by not receiving a share of Competition Payments. Other States have benefited from this source.

8 *How might a betterment tax in locations of rapid growth work in practice?*

Response: CENTROC has little to comment on the subject of a betterment tax.

Land valuations in New South Wales are undertaken every four years. Land may be classified by Councils into categories which attract different rate levels. Betterment tax may be a quicker way of adjusting to increased land values but in reality, it would not be a great boon, especially for the smaller rural Councils.

9 *In what ways should the certainty and predictability of financial arrangements with other spheres of government be improved?*

Response: Please refer to the information given in question 7. A fixed percentage of personal income tax or a fixed percentage of GST would allow Councils to budget with assurance.

New South Wales Local Government also suffers from rate-pegging. This is an iniquitous imposition.

10 *Is there a case for reducing or abolishing the minimum grant?*

Response: CENTROC does see there is a need for abolishing the minimum grant. This is offered in the context that it may spread more of the funds available to those more needy.

11 *Is there scope to adjust the inter-state distribution and rationalise the different arrangements for general purpose and local roads grants, assuming both remain untied in the hands of Councils?*

Response: This course of action would give rise to much intellectual and political debate.

New South Wales Local Government believes now that it is needlessly subsidising other States such as Queensland, however, the **scope** is one which local Councils would hardly hope to influence.

12 *Would the FAGs system benefit from a clearer statement of Commonwealth policy direction and a formal intergovernment agreement on objectives and processes? If so, how should this be done?*

Response: The CENTROC group believes this will probably be the case. The FAGs grants should not be tinkered with by the respective Governments. Please refer to the history in Question 7.

13 *What is the scope for specific measures to enhance Local Government's revenue base to meet infrastructure needs – for example, infrastructure levies and increased borrowing?*

Response: Realistically there is little scope for enhancing Local Government's revenue base.

Entrepreneurial ventures are often risky and potentially unwise.

Many local communities simply do not have development and are operating in areas where capacity is limited.

The question of increased borrowing is a difficult one. Many New South Wales Councils have in fact opted to eliminate all debt. Some people see this as necessary and others see it as being perhaps constrictive in that Councils actually do become fixated in the view that no debt shall be incurred and so works may be not undertaken or suspended.

It probably could be said that in general most of the CENTROC Councils do not favour increased borrowing.

14 *How could supplementary Commonwealth assistance continue to be financed within the constraint of budget neutrality?*

Response: CENTROC believes the Commonwealth Government must intervene immediately with National Competition Payments and a share of GST.

15 *How could the States also provide increased support for local infrastructure?*

Response: The New South Wales Government is not really highly regarded in the area of support for local infrastructure. Indeed the Country Towns' Water and Sewerage programs now have huge waiting lists. Councils, in many cases, have what they deem to be their share of the funds available but cannot receive grant funding for many years into the future. This demonstrates a lack of support for even essential services let alone innovative infrastructure projects.

In reality, the States have probably lessened their support for local infrastructure.

The annual Parkes Financial Awareness Conference to be held at Parkes in 2003 will indicate the depth of the infrastructure problem in New South Wales. Whilst some Councils may have a cash problem, regard must be also given to the infrastructure deficiency situation.

16 *Taking into account inevitable limits on funding, what are the strategic priorities for Commonwealth involvement in regional planning and development?*

Response: There is probably a strong desire for individual Councils to become involved in regional activities at this point in time. Strategic priorities should have a regional focus not necessarily a "biggest town/city" focus.

Most Councils would belong to a ROC or regional organisation. Some are better resourced than others and Councils actually regard regional co-operation as a means of retaining their individual existence.

17 *On what basis would Local Government be willing to resource a strong, effective system of ROCs across most of Australia and significantly expand the level of regional co-operation and resource sharing amongst Councils as a key element of service delivery?*

Response: Please refer to question 16. ROCs are in various stages of development however they do provide a very realistic opportunity for co-operation of resource sharing. The development of ROCs should be rationalised.

Most successful ROCs have a full-time secretariat. Commonwealth funding of the secretariat and other resources may provide a uniform national situation.

18 *What are the specific areas in which Local Government sees a need to rationalise roles and responsibilities with the Commonwealth and States?*

Response: There are two main areas where CENTROC sees the need for rationalisation.

The first is in the area of health. Councils today are required to do more and more in the general health area. This stretches from the engagement of doctors and nurses, provision of facilities for elderly people and the attraction of special health services to the area or the transportation to areas providing such services.

If Local Government is to be involved in an ever-increasing range of health services, then there needs to be more contact with the area health boards. This may even be through a ROC.

The other area that needs additional work is operations in the area of roadworks. Councils and the RTA are generally quite isolated in their approach to roadworks. The Commonwealth is involved through its provision of funding but not in actual construction.

It is understood that a successful arrangement exists in Western Australia with co-operation between the Western Australian Government and the Western Australian Local Government Association. There have been material benefits in the area of road construction.

There needs to be a co-ordinated approach by the New South Wales Government and local Councils to achieve better value for the road dollar. The AusLink program may assist in this but this is yet to be seen.

19 *Is there sufficient exchange of information between States on 'best practice' intergovernment relations? If not, how could such exchange be improved?*

Response: The CENTROC group is not in a position to answer this question. Generally, Local Government operates quite separately from State Government and is limited in its knowledge of State Government affairs and arrangements.

20 *Should the approach advocated for AusLink be applied more widely? If so, what would be priority areas?*

Response: The Councils would reserve their response in relation to this question. The AusLink proposal has not been fully appraised and whilst some Councils regard it as positive other Councils, especially the smaller Councils, have some scepticism with the proposal.

The AusLink proposal points Councils more towards regional co-operation and provided Councils do not miss out this would be generally embraced.

21 *Should capacity building for Local Government be approached on a national basis? If so, what are the priorities for a national program?*

Response: CENTROC would support capacity building for Local Government on a national basis. However, the major impediment to this approach is the dictatorial role exercised by the State Government in relation to the New South Wales Councils.

Councils are bound up with New South Wales Legislation and subject to the whims of the current State Government.

The New South Wales Rate Pegging Legislation is a classic example of the State Government imposing a political will on Local Government. Polls would suggest that residents are mature in their outlook to trust their local Council and its revenue raising decisions, but the State Government continues to exercise this control.

22 *What sort of organisational framework is required to ensure an effective capacity building effort?*

Response: ROCs do exist throughout most of New South Wales today. As previously indicated, all operate under different arrangements with different objectives. However, they do present probably the best medium for the delivery of capacity building.

23 *Would Local Government support some form of accreditation assessment in return for an increased role in the administration of Commonwealth programs?*

Response: The CENTROC group would be more than happy to co-operate in an accreditation assessment if it meant an increase in the role in the administration of Commonwealth programs.

**THE IMPACT OF UNFUNDED DEPRECIATION
ON THE FINANCIAL HEALTH OF
LOCAL GOVERNMENT COUNCILS IN NSW.**

**Prepared by: Peter Jordan
March 2003**

THE IMPACT OF UNFUNDED DEPRECIATION ON THE FINANCIAL HEALTH OF LOCAL GOVERNMENT COUNCILS IN NSW.

Executive Summary:

The data confirms that:

- As NSW Councils have brought to account the estimated cost of bringing drainage infrastructure back to a satisfactory standard, the amount required to restore public assets to a satisfactory standard has grown from the 1995/1996 preliminary estimate of \$6.04 billion to at least \$6.8 billion and looks likely to increase further as Councils refine their understanding of the condition of the public assets under their care and control.
- \$6.8 billion is about 2.2 times the total annual key revenues received by the Councils of NSW in the form of general rates, water rates, sewerage rates, government grants for operations and government grants for capital works. [Refer to notes. Page 6]
- This means that if the total of all rates and grants were permanently increased by 10% and the proceeds applied to this problem it would take at least 22 years to overcome. This, plus deficiencies of maintenance expenditure on public assets, has serious implications for the financial health of Local Government Councils.
- Variations in the data supplied by individual Councils indicate:
 - There is still work to be done before all Councils have effective asset maintenance policy and effective management control over public assets.
 - "Satisfactory Standard" is subjective and is not being determined with consistency across and within Councils.

Cost Shifting from State Governments to Local Government



Bathurst City Council

Name: Bathurst City Council

Population size: 30,307

Geographic size: 240 square kilometres

Current budget: \$71,026 million

- 1. Any relevant demographic information:** Bathurst is a city with a population of approximately 31,000 and is Australia's oldest inland city. Bathurst offers a full range of amenities including Charles Sturt University, TAFE, public and private high schools, base hospital and excellent social, community and sporting facilities.
- 2. Overview of historical development of the council.** Bathurst was declared a City in 1885. As the City has grown, boundaries have been extended to provide land for the City's growth.
- 3. Is the council member of a regional organisation of councils? Yes. Which?** CENTROC – Central West Regional Organisation of Councils.
- 4. Outline any contract works council has undertaken for any state, federal or other agency during 2001/02 and its value.** Council constructed Ben Chifley Dam with the total contract value of \$30 million. Council was required to contribute \$15 million or 50% of the construction cost. This was completed in 2001/2002.
- 5. Outline any activity council has undertaken which would not normally be part of council activities, or traditionally has been provided by Federal or State Government during 2001/02 and its value.**
- 6. Does the council believe that devolution of services over the last ten years has placed additional financial burdens on the council?**
Yes.
- 7. Outline what services have been devolved and approximate annual cost and income.** See attached list dissected into various functions of Council. No annual cost figures have been estimated.
- 8. Outline costs incurred by council in meeting federal and state compliance/ administrative requirements.** Council has not carried out an estimate of costs incurred by Council for compliance of State and Federal administrative requirements.

9. Has the council had to employ additional staff to provide devolved services or meet additional compliance /administrative requirements?

Yes. **How many?** It is estimated that Council has employed approximately 10 to 15 additional staff.

10. Outline any council services that could be better provided by another sphere of government or the private sector. Service areas that could be provided by another centre include cultural, recreational and child care facilities.

11. Outline any services currently provided by other spheres of government that could be better provided by local government. Council would develop a fairer and more equitable system of the dissection of annual tax revenue to ensure all Councils receive 2% previously guaranteed.

Cost Shifting from State Governments to Local Government



Bathurst City Council

The following areas of Bathurst City Council's expenditure reflects cost shifting.

ENGINEERING FUNCTIONS

- ◆ Load Based Licensing - to self fund the EPA.
- ◆ Water Licensing - the State Water component of the Department of Land and Water Conservation will be externally funded.
- ◆ Waste Minimisation.
- ◆ RTA single limitation contracts. The RTA has devolved to Council its own time consuming compliance mechanisms whilst enabling it to downsize, whilst getting a cheaper service delivery.
- ◆ Road Safety Officers. Council funds this position under the threat of not receiving RTA grant funds.
- ◆ Flood Mitigation. This is more of a Commonwealth driven shift of funding responsibility to local government.
- ◆ Flood levy funding
- ◆ Water and sewerage capital works - subsidy to back log works only
- ◆ Copy of Water Charges - Water Act Amendments
- ◆ Power of Entry - Water charges - recently restricted
- ◆ Trees under power lines
- ◆ Cost shifting Public Works Department and Water Resources to Local Government particularly in the Tweed, Richmond, Clarence Valleys
- ◆ Storm Water Management
- ◆ Road Safety Officer
- ◆ Storm Water Extension Officer
- ◆ Graffiti on private land
- ◆ Heavy vehicle size and weight increases with no commensurate funding increases

GOVERNANCE FUNCTIONS

- ◆ Additional requirements legislated in the 1993 Local Government Act
- ◆ Animal control
- ◆ Multiple appeal processes of ICAC, Ombudsman, Department of Local Government, Administrative Tribunal, FOI, etc
- ◆ On site storage legislation
- ◆ The Local Government Act has created additional access rights to information for members of the public, in particular Section 12 of the Local Government Act.
- ◆ Constitutional Referendum. The 1993 Act requires that for any changes to wards or boundaries, the number of Councillors, or how the Mayor obtains office; must be resolved by way of constitutional referendum. The cost of a referendum is similar to the cost of holding elections.
- ◆ The Local Government Act required that land be classified as either operational or community. This caused a cost on Council, however, I believe that it was probably covered in the initial set up costs to which the State Government did give a marginal rate increase at the time of introducing the 1993 Act.

- ◆ The Act at Section 36 requires plans of management for community land. The establishment of these plans is a cost to Councils.
- ◆ Senior Staff. I note at Sections 334 and 337 that there are requirements with respect to senior staff and contracts. My experience with respect to the change in this requirement is that Councils have tended to pay more for senior staff than they used to pay due to the introduction of five year fixed term contracts.
- ◆ In 1993 the Act enshrined within itself that it needs to be reviewed every five years. Section 747 of the Local Government Act. This in itself generates costings as Councils will be expected to respond.
- ◆ The introduction of the Companion Animals Act 1998. The Dog Act of 1966 transferred the role of responsibility of registration and management of dogs from the Police to Councils. The responsibility and cost was further exacerbated in 1998 when the Companion Animals Act imposed more responsibility on Councils - without any financial compensation. The net cost to Orange City for management of the Companion Animals Act for 2002/03 is \$260,180.

FINANCIAL FUNCTIONS

- ◆ Policing of Events. Significant events of all types, including car racing at the Mount, are a major source of economic benefit to regional cities. This is also now a user pays activity.
- ◆ Asset Management. Although this is good management practice, it has meant that local government has had to re-deploy resources to adequately address the issues. Rate pegging has not allowed Council to generate additional funds to readily accommodate the additional resources.
- ◆ Public Liability. The courts, the legal fraternity, and the lack of, or slow response by Government has increased the costs of providing local government services "in good faith", in the areas of premiums/excess, processing claims/evidence and more resources required in checking assets for their condition.
- ◆ The Training Guarantee Levee has previously mandated the percentage of existing funds toward training activities.
- ◆ Fire Services. There has been rapid increase in local government contributions to both the RFS and the NSW fire brigades.
- ◆ Electricity charges
- ◆ Street lighting
- ◆ Insurance - particularly related to GST and sales tax charges
- ◆ GST and sales tax
- ◆ Financial Institution duty
- ◆ Board of Fire Commissioners
- ◆ Rural Fire Services
- ◆ Pensioners rebate
- ◆ Financial Assistance Grants
- ◆ Local Government Assistance Grants (State funding)
- ◆ Insurance is to be met by Councils after ten years
- ◆ Policing costs - events - surveillance cameras
- ◆ Parking Officers
- ◆ Section 611 charges
- ◆ Nonfeasance and malfeasance
- ◆ Maternity leave
- ◆ Statutory setting of fees
- ◆ Fuel tax in the Central West
- ◆ Advertising private works. Section 67 requires advertisement of any private works undertaken to which a less than commercial price is charged. This has been a minimal matter for Bathurst City Council but across the industry may have created costs in terms of advertising.

GENERAL FUNCTIONS

- ◆ Occupational Health and Safety compliance cost.
- ◆ Work Cover is now run on a user pays basis, in that it is to be self-funding from fines.
- ◆ Emergency Management. Whilst Council is not the combat agency it does provide the bulk of resources to the response effort.
- ◆ Religious Organisations do not pay rates.
- ◆ State Emergency Service
- ◆ Occupational Health & Safety - Whipping Boy in court cases
- ◆ Independent assessors for development applications
- ◆ Dental, medical and hospital services attractions
- ◆ National Competition Policy funding distribution
- ◆ Section 402 requires the development of management plans.
- ◆ Annual Report. Section 428 of the Local Government Act requires that an extensive Annual Report be completed including statement of environment report that links over to the EPA Act.
- ◆ Alcohol Free Zones. Sections 642 and 643 deal with street drinking and the creation of alcohol free zones.

ENVIRONMENTAL FUNCTIONS

- ◆ State of the Environment Report
- ◆ Salinity management
- ◆ EPA requirements for garbage disposal including 60% reduction in landfill
- ◆ Vegetation Management
- ◆ Land and Environment Court decisions contrary to Council decision which result in costs to the Council
- ◆ Protection of the Environment Operations Act. This is an Act that is administered by a number of government departments. In order to fully comply and implement it properly, Council had to employ an Environmental Officer.