

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: ..... 298 .....

Date Received: ..... 4/10/02 .....

Secretary: .....

# **COMMONWEALTH INQUIRY INTO LOCAL GOVERNMENT RESPONSIBILITIES AND FUNDING**

**Submission by**

**DEPARTMENT OF LOCAL GOVERNMENT  
AND REGIONAL DEVELOPMENT**

**WESTERN AUSTRALIA**

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## *Introduction*

In this submission to the Standing Committee's inquiry into local government and cost shifting, the Western Australian Department of Local Government and Regional Development addresses the terms of reference of the inquiry as set by the Committee. In doing so, however, the Department notes that these terms of reference are themselves quite restrictive.

In particular, it should be noted that the Commonwealth has been responsible for a reduction in general revenue grants to the States over a 20 year period (1981-2001). General revenue grants are now nearly \$20 billion (\$2 billion for Western Australia) below what they would have been if the Commonwealth had maintained these grants at their share of Commonwealth taxes in the early 1980s. These reductions have included:

- A reduction of 7% in 1981-82;
- Severing the link with economic growth in 1985-86, and escalating grants only for inflation until 1994-95 (apart from 2% real growth in 1986-87); and
- Successive reductions (relative to the inflation growth formula) over the period 1988-89 to 1990-91 totaling \$1.6 billion.

Moreover:

- The Commonwealth, in 2002, required the States to bear some of the cost of its abolition of fuel excise indexation, through reduced general purpose grants. This will cost Western Australia \$83 million over the period 2002-03 to 2005-06;
- States were required to contribute a total of \$1.5 billion (\$150 million for Western Australia) to the Commonwealth's budget over the period 1996-97 to 1998-99;
- The Commonwealth abolished general capital grants to the States (\$145 million per annum for Western Australia) over the period 1986-87 to 1994-95;
- The Commonwealth abolished the dental program (\$4.5 million per annum for Western Australia) in 1997-98; and
- The Commonwealth has in past years imposed "efficiency dividends" on a number of specific purpose payments. In housing, this, in conjunction with insufficient GST compensation, has meant a reduction of \$50 million in funds flowing to Western Australia under the Commonwealth State Housing Agreement over the past three years.

These cuts have impacted on all States and Territories. In addition, Western Australia suffers from longstanding structural inadequacies in Commonwealth-State funding arrangements.

In response, in November 2001, the Western Australian Government (in partnership with the governments of Victoria and New South Wales) commissioned a major review of the allocation of Commonwealth Grants to the States and Territories. The Review Committee comprised Professor Ross Garnaut and Dr Vince FitzGerald. Their Final Report was released recently and is commended to the Standing Committee for the information it provides on Commonwealth-State financial relations, and for the recommendations it proposes.

**1. *Local government's current roles and responsibilities.***

The local government sector in Western Australia is perhaps the most diverse of any state, with huge variations in area, population, revenue and budget. While there is a significant variation, the fundamental responsibilities of each local government are the same, regardless of size, although the capacity to meet responsibilities and provide services varies significantly.

With this in mind, the Department of Local Government and Regional Development plays a major role in supporting local governments and regional communities in Western Australia. The Department plays a vital role in guiding the quality of community life in Western Australia, by developing the capacity of local government and regional communities to achieve social and economic progress. It also fulfils a regulatory role, develops and reviews policy for the State Government and conducts research, analysis and strategic planning in relevant fields (see Appendix 1). Importantly, the Department oversees the implementation of the *Local Government Act 1995* and other legislation affecting local government operations.

Prior to the introduction of the *Local Government Act 1995*, local government in Western Australia was bound by specific powers that limited the scope of its operation. Local governments could not exercise a function unless it was prescribed in legislation and were required to obtain approval from the Minister for Local Government for around 150 functions.

The present Act has replaced specific powers with a general competence power for local government to provide for the good government of persons in its district. While the powers of local government are not unlimited, the Act states that a liberal approach is to be taken when interpreting the scope of this function.

Autonomy of local governments has been enhanced and accountability has been generally transferred to local communities. However, there is still a range of areas where local governments need approval, although the number has been reduced to around twenty.

The clear intent of the new Act has been to provide local governments in WA with the ability to provide services in response to the changing needs of their communities.

**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.***

Rating is the most significant component of the local government revenue stream in Western Australia. For the 2001 financial year, rates represented an average of 43% of local government revenue on a Statewide basis. The State Government does not cap the level of local government rating. Councils have the ability to levy differential rates on different types of property, although the *Local Government Act 1995* does constrain the maximum differential rate (unless a greater amount is approved by the Minister for Local Government and Regional Development) to no more than twice the minimum differential general rate for each local government.

Local governments are also embracing greater use of user charges as well as licence and other fees. Sections 6.16 to 6.19 of the *Local Government Act 1995* set the framework for various fees and charges, and Section 6.38 provides for service charges to meet the cost of providing a prescribed service in relation to land. To date, service charges have been prescribed for specific services such as underground power, television re-broadcasting and property surveillance and security.

Local governments have the power under the *Local Government Act 1995* to be entrepreneurial in their approach to developing alternative funding sources. Some local governments subdivide and develop land, operate trading undertakings and enter into commercial enterprises, such as running caravan parks and conducting markets.

The State Government provides significant specific purpose funding to local governments across a broad range of programs, including

- Road funding – During the 2001-2002 financial year, the State Government allocated a total of \$93.9 million to local governments for expenditure on roads.
- Heritage funds – The Heritage Council of Western Australia provides funding incentives to encourage the conservation of the State's heritage buildings and culture. These include the Heritage Grants Program; remissions of rates and charges and Tax Rebates Heritage Agreements.
- Funding for sport and recreation facilities – For the 2002-03 financial year, more than \$9 million will be provided by the State Government to 167 Western Australian sporting and local government bodies, through the Community Sporting and Recreation Facilities Fund (CSRFF).
- Regional Investment – The Regional Investment Fund (RIF), established by the State Government in 2001, provides \$75 million over four years to assist with the economic and social development of regional Western Australia and improve access by regional communities to services. Regional local governments are eligible to apply for funding for a wide variety of projects.
- Country Housing – A scheme with funding of \$1 million in 2002-03 has been introduced to help smaller and remote communities to provide adequate housing to attract and retain tradespeople and professionals. The scheme is open for local authorities and communities to apply for a subsidy of \$50,000 per dwelling.
- Community Safety – The State Government provided \$1 million in 2001-02 to local governments and community groups to tackle crime and anti-social behaviour through the Safer WA Community Security Program. Funds were provided for a wide variety of measures, including the conduct of security audits, employing youth workers, tackling substance abuse or truancy, making public places safer and employing security patrols.
- Cycleways – The Country Pathways Grant Scheme assists local government authorities in regional WA to improve cycling facilities. More than \$1.2 million was allocated in the 2002-03 State budget to assist 53 projects in 40 local government areas. This brings the total funding provided to local councils for the

planning and development of cycling facilities in regional WA to \$6.7 million over the past seven years. In addition, the State Government has contributed \$7.2 million towards Metropolitan Local Government Grants for Cycling Infrastructure in the five years to June 2002.

- Recycling – More than \$2 million is available each year through the Resource Recovery Rebate Scheme to support local authorities in diversion of waste from landfill by the recovery of recyclables from the domestic waste stream collected by Local Government through their kerbside rubbish collection programs. Its administration has been contracted out to the WA Local Government Association with appropriate funds being provided for this purpose. The rebates, along with several grant programs, are provided to local governments and other groups from the Waste Management and Recycling Trust Fund run by the Department of Environmental Protection and funded through the Landfill Levy.
- Lotteries Commission – Local government authorities are a major recipient of direct grants for community projects funded by the Lotteries Commission. In 2000-01, over 100 local governments received \$6.3 million for over 180 projects.

This is not an exhaustive list, but indicative of the State Government's significant financial support for local government activities.

The level of State Government support for local government activities needs to be seen in the context of the State's financial position. As noted above, while there has been growth in some State Government revenue streams, the State has been receiving a declining share of financial assistance grants from the Commonwealth, and this has compromised the State's ability to maintain funding for local government. This issue has been further explored in the Garnaut-FitzGerald report on Commonwealth-State Funding, referred to in the Introduction to this submission. This situation is expected to remain, at least until the State's share of GST revenues shows real term growth.

**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.***

The obligations and expectations on local governments vary from place to place, and the willingness of local governments to levy rates on their communities also varies. In part, this reflects the diversity of local government circumstances outlined above.

Local governments are embracing resource sharing across a range of functions to achieve efficiencies and service objectives throughout regional areas. The State Government has encouraged this trend, and Section 3.61 of the *Local Government Act 1995* provides for the formation of regional councils to perform designated functions (that is, those functions delegated upwards by the council to the regional council). The State Government has also provided some financial support to local governments to support resource sharing.

Unfortunately, the Commonwealth's *Local Government (Financial Assistance) Act 1995* does not assist in this regard, as the allocation of financial assistance grants on equalisation principles tends to inhibit local government boundary change. This occurs

because the grants received by an amalgamated local government are generally less than those previously received by the relevant local governments as separate entities.

The legislation also does not provide local government with sufficient certainty about the general grants they can expect after amalgamation. Consideration needs to be given to the legislation providing a guarantee as to a particular length of time for which grants to amalgamated councils could be held constant to the total grant level prior to amalgamation.

While the Act and National Principles are silent on this specific issue, the policies of State Local Government Grants Commissions themselves could be regarded as falling within the meaning of the phrase “as far as practicable” (Section 6(2)(a) of the Act), as this phrase is applied to the horizontal equalisation objective. There needs to be more clarity in the legislation and for principles to make specific positive reference and to provide encouragement to amalgamations. This would assist State Local Government Grants Commissions to formalise their policies and enable more certainty to be given to local government about future funding in such situations.

**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.***

There has been no substantial change in the recent past to the respective powers, functions and responsibilities of State and local governments in Western Australia.

Based on local government financial data, there appears to be little evidence to suggest that State Government decisions have resulted in additional costs for local governments. Closer analysis of this issue is somewhat difficult, given the variety of approaches employed by local governments in the reporting of expenditures.

Many of the additional functions taken up by local governments in recent years reflect policy decisions of individual local governments to become involved in particular services or activities. Certain local governments, for example, have made policy decisions to raise additional charges for specific security patrol services, in response to the demands and perceptions of their communities and the autonomy provided by the *Local Government Act 1995*. For many local governments, there is limited capacity to undertake further functions than those currently performed, without substantial additional funding.

Rationalisation of State Government services in some areas may have impacted on local government services and functions. However, it is the State Government’s role to manage the delivery of its services and functions in the most effective way, in order to reflect changing community requirements. Rationalisation decisions are not taken lightly or arbitrarily. Rationalisation is only undertaken when the State is satisfied that, on balance, impacts on local areas are outweighed by benefits to the State and to other local areas. That is, the community as a whole benefits from greater efficiency and effectiveness in the provision, planning, funding and management of services.

It should also be noted that rationalisation of Commonwealth Government services in some areas has impacted on local government services and functions. For example, the

decision of the Commonwealth to withdraw from aerodrome services in rural and remote areas has had adverse impacts on local government.

As a consequence of this, Western Australia became the first State to provide funding for airport infrastructure in regional areas through the Regional Airports Development Scheme (RADS), which began in 1994-95. Some other Australian States have since developed similar programs.

RADS has played a significant role in helping develop airport infrastructure in regional Western Australia. It has injected \$14 million into more than 80 airport projects around the State. Through RADS, the State works in partnership with airport owners (including local governments) to provide assistance to develop regional airport infrastructure that meets access needs and contributes to regional economic growth.

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.***

In August 2001, the Premier announced the formation of the Working Group on State and Local Government Relations. This Group, now known as the Partnership Steering Group (PSG), comprises representatives from the following:

- Western Australian Local Government Association;
- Local Government Managers Australia;
- Department of Local Government and Regional Development (Chair);
- Department of Premier and Cabinet;
- Department of Treasury and Finance; and
- A representative from the Regional Development Commissions.

The objective of the Group is:

*To operate at a strategic level to ensure that State and local government are working cooperatively to improve the social, environmental and economic health of Western Australia.*

The Group has finalised Principles to underpin the relationship between State and local government. These reflect an overarching principle of:

*A commitment to improving cooperation between State and Local Government to enhance sustainable social, environmental and economic development of Western Australia through consultation, communication, participation, cooperation and collaboration at both strategic and project levels.*

The Group has also drafted a template as a basis for Partnership Agreements between State agencies and local governments. This template provides guidance for groups wishing to enter into partnership agreements. It is suitable for specific agreements with individual local governments or groups of local governments or general agreements between the State Government and the Western Australian Local Government Association and/or Local Government Managers Australia.

In addition, the Group has developed a model framework to assist with ensuring positive relationships between the two spheres of government. This framework allows for the creation of a State/Local Government Council, with high level representation.

The general principles for partnership include the following:

- Recognising that partnerships between State and local government are essential to achieve sustainable social, environmental and economic development for the Western Australian community.
- Being flexible and open to new approaches to service delivery and funding.
- Being sensitive and responsive to the needs and constraints of both spheres of government at the local level.
- Identifying and understanding the roles and responsibilities of both spheres of government.
- Ensuring that these roles and responsibilities are considered and respected in government decisions.

**6. *The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee.***

The findings of the Commonwealth Grants Commission (CGC) in its Review of the *Local Government (Financial Assistance) Act 1995* have been noted, and its findings and proposals are generally supported. The current inquiry, however, should not delay the implementation of the findings of the CGC review. That review dealt with the principles for allocating untied Commonwealth financial assistance grants to local government, and completion of the current inquiry is not required to implement changes to the operation of the Act and the national principles. The review process included extensive consultation with stakeholders, and the conclusions were not contentious, suggesting that no further consultation on these issues is required. The Commonwealth Government should therefore move to implement the findings of the CGC review of the *Local Government (Financial Assistance) Act 1995*.

The current arrangements for escalation of the funding pool for population growth and CPI are supported and should be strengthened. The move by the Commonwealth Government in 1997-98 to roll back the increase in the financial assistance grants pool, as a contribution to reducing the federal budget deficit, was viewed with concern by both State and local governments. At that time, the pool of local government grants was increased for inflation, but not population growth. As a result, the 1997-98 funding outcome was 1.2% below a full real per capita increase. To date, this shortfall has not been redressed. The legislation should be strengthened to guarantee future increases in the pool for both population growth and inflation and to ensure that the Financial Assistance Grant pool is not susceptible to short-term pressures, whether they be budgetary or political.



## APPENDIX 1

### **The Department of Local Government and Regional Development**

Established in July 2001, the Department's operational structure is essentially organised around three key areas of responsibility:

- Development;
- Regulation; and
- Policy.

The Capacity Building Division has a development role focusing on offering guidance to the officers and elected members within the local government sector and providing communities with ways of pursuing social and economic progress. It encourages the further take-up of skills, knowledge resources, networking and technology tools in the hands of WA communities and WA local governments. The work covers areas such as leadership building, local government training and development, telecentres and satellite services.

The regulatory role of the Department resides in a division called Governance and Statutory Support, ensuring compliance with the law, including the *Local Government Act*. Through monitoring and investigation, the Department tries to ensure citizens in all parts of the State receive the benefit of sound administration, proper representation and ethical dealings. This division also supervises adherence to the Australian Building Code and provides administrative support to the Local Government Grants Commission.

Policy review and development, the preparation and enactment of legislation, research, analysis and strategic planning are undertaken in the Strategies and Legislation Division. In the development and review of policy, the Department consults with the local government sector and the many interests involved in regional development. This part of the Department is also responsible for managing the implementation of key programs such as the State Government's four-year Regional Investment Fund as well as other funding schemes for councils, country groups and indigenous communities.