

**House of Representatives**

**Standing Committee on Economics, Finance and Public Administration**

**Inquiry into Local Government and Cost Shifting**

**Submission**

**By**

**Local Government Managers Australia (Western Australian Division)**

**October 2002**

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## Introduction

This submission to the House of Representatives Economics, Finance and Public Administration Standing Committee Inquiry into local government and cost shifting has been prepared and submitted by Local Government Managers Australia (Western Australian Division) (LGMA WA).

LGMA WA exists as a professional body charged with the responsibility of lobbying and advocacy on behalf of a diverse membership comprising 500 chief executive officers, senior officers and professionals employed in local government throughout Western Australia.

This submission is made in response to the Terms of Reference of the Committee's Inquiry into local government and cost shifting as referred by the Hon. Wilson Tuckey MP, Minister for Regional Services, Territories and Local Government.

To this end, it is noted that as part of its Terms of Reference, the Committee has been requested to examine:

- “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 utilisation 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 government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.*
- 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 of June 2001, taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.”*

The objective of the LGMA WA submission is to highlight to the Committee, the range of geographic, economic and socio-political issues affecting Western Australian local governments in the delivery of functions and services to communities in metropolitan and rural areas.

This submission asserts that achievement of these service delivery objectives is now being increasingly impacted as a consequence of responsibility shifting and the encouragement of local government to take on new government initiatives by both Federal and State Governments and the lack of appropriate and continuing funding resources to meet these needs.

The submission also seeks to identify options for reform of funding mechanisms and responsibility delineation between spheres of government which in LGMA WA's view, will be beneficial in alleviating the adverse impact of cost shifting and bringing about improved service delivery to local communities.

## Submission

### 1. Framework and environment

#### Geographical and socio-economic factors – implications for Western Australian local government.

**Geographical, population and political factors have combined to create an environment in which Western Australian local government is responsible for the provision of key community infrastructure and a wide range of services.**

Western Australia is a unique state in terms of geography and distance, population and revenue generation capacity. These factors combine to create environments of hardship and difficulty in rural/remote areas that generally are not experienced in most other States.

Total population of Western Australia is approximately 1.88 million, of which some 1.37 million reside in the greater Perth metropolitan area. Total area administered by local governments is 2.54 million sq km and within which is included a local government road network of \$10.9 billion (replacement value) as at 30 June 2001.

The diversity of Western Australia in terms of geography, economic and social factors is reflected not only from the perspective of structural and resource-based features of particular local governments, but also in terms of issues facing the sector in discharging its functions and responsibilities at a local community level.

Large distances between rural/remote communities and regional/urban centres create disproportionate cost burdens. From a local government perspective, these distances often translate to responsibility for extensive roads infrastructure. The resources and expenditure commitments for local governments arising from these responsibilities are invariably compounded by inadequate and/or ineffective revenue generation capacity, as primarily reflected in property rates.

The high levels of economic growth and development experienced throughout Western Australia have had implications for local governments of regional urbanised communities and those located throughout the Perth metropolitan area. The steadily increasing population of the State generally and the Perth metropolitan area in particular, has been attributed to high levels of economic activity, in turn translating to significant pressures upon local governments for the provision of infrastructure and services.

The continuing growth of the Perth metropolitan area as reflected by increasing population numbers, has had an effect on many regional and remote communities.

These communities have experienced problems such as a decline in the level of essential services and functions and a reduction in the revenue generation or economic capacity required to ensure their ongoing viability. Local government's efforts to promote viability have been further hampered by a gradual withdrawal of many services (eg: banking, postal, retailing) deemed by private sector providers as being unprofitable.

Consequently, residency in affected communities becomes less attractive over time, thereby leading to significant population shifts towards Perth and other larger urban areas. Arguably, such circumstances of themselves, provide justification as to the importance of Commonwealth financial assistance in acting somewhat as a 'cushion' against adverse economic impact experienced by these affected communities and in particular, their local governments.

Changing social trends associated with increasing populations in urban areas have produced significant consequences including high rates of unemployment and crime, destruction of public property and the resultant need for remedial measures. All of these issues invariably

impact in some way, upon the regulatory and service functions of local governments and therefore, ultimately create an economic and financial burden.

*Roles and responsibilities of local government in Western Australia.*

**LGMA WA submits that increased pressures for service delivery to local communities are predominantly the result of an ongoing devolution of responsibilities and functions by State to local government and thereby resulting in cost shifting.**

**LGM WA asserts that this change in Local government's service delivery focus from being predominantly *property-based* to one which is *people-based*, necessitates pursuit of alternative, more flexible revenue sources – notably the provision direct to local government, of a guaranteed share of taxation revenue, such as GST revenue.**

Delivery of functions and services at a local community level is largely facilitated through the agency of 142 local governments throughout mainland Western Australia. Of this number, 30 local governments exist within what is generally considered as being metropolitan Perth, with a further 112 being located throughout regional and rural areas of the state.

Services traditionally delivered by local governments to their communities include: roads, recreation, waste management, community health and aged care services.

The mandate for these functions undertaken by local government is provided through a legislative framework - that is, the *Local Government Act 1995* and associated regulations. The environment since implementation of the 1995 Act has been one of general competence whereby local governments are theoretically accorded the scope to undertake a broad range of functions and activities subject to adherence to statutory mechanisms promoting transparency and accountability.

The extent and reality of this legislative framework is such that all local governments are required to achieve particular levels of compliance, irrespective of size, location and circumstance.

Increasingly, a significant proportion of services and functions being provided by all Western Australian local governments is not prescribed under legislation, but rather arises as a consequence of direct local community demand. Predominantly, the cost burden for take up of such services or functions is falling squarely upon local governments and their local communities.

Local government's service delivery focus has also changed from being predominantly *property-based* to one which is *people-based*, thereby highlighting the limitations and inadequacies of its existing revenue generation mechanisms.

Property rates comprise the significant proportion of local government's general revenue and have in the past been linked to provision of traditional property based services (eg: refuse collection, roads construction/maintenance, health inspection, planning and development control).

The new *people-based* focus that now drives local government service delivery also raises substantial questions regarding the adequacy and relevance of property rates as local government's primary revenue source. LGMA WA asserts that this warrants investigation of alternative, more flexible sources – notably the provision direct to local government of a guaranteed share of taxation revenue, such as the GST.

Another area of concern to LGMA WA's members is the compliance and resource implications arising from the need for local government to act in an 'agency' capacity to give effect to State Government legislation and regulations.

These imposts have occurred in areas where local government has been required to undertake functions on behalf of the State, including collection of fire and emergency services levies, building construction licensing, food premises inspections, dog control legislation, swimming pool inspections and policing of vandalism and graffiti of public property.

Factors ranging from the declining viability or policy neglect of rural and regional Australia and the prevalence of economic rationalism have now also combined to force Western Australian local government's involvement in areas such as recruitment, housing and income guarantees for medical practitioners and provision of banking services in their communities.

Tourism represents yet another area in which local government is becoming increasingly involved, particularly in respect to provision of infrastructure, development and the allocation of resources required for marketing of attractions.

Although tourism is Australia's second largest industry local government does not share equitably in the income generated as a result, again particularly the GST tourism creates.

#### Limitations of property based revenue mechanisms

**LGMA WA submits that local government's increasing role in the delivery of an extensive range of functions and services has been severely hampered by the limitations of its reliance on property based revenue mechanisms.**

Income Tax operates as a somewhat 'invisible' revenue generation mechanism for the Federal Government in the sense that it is automatically deducted from gross earnings leaving the recipient with disposable income.

Property rates levied by local governments on the other hand, are totally transparent and payable from the property owner's disposable income. Transparency can however, give rise to adverse community reaction (eg: circumstances involving property rates increases and associated comparisons with C.P.I). General public perceptions of local government property rates are often not a fair reflection of *property-based* and *people-based* services provided.

As population pressures in metropolitan and regional urban areas work to produce high rates of residential and commercial development, these factors also create pressures on local governments for the provision of property based infrastructure and services (ie: roads, public open space).

Whilst there is a capacity to derive property rates from additional residential housing and commercial premises located within these new developments, an inability to levy developer contributions for provision of infrastructure and services results in local governments having to bear the substantial cost burden.

Local government's capacity to sustain traditional property based revenues is also being adversely impacted as a consequence of what is an increasing exploitation of the legislative environment. Recent years have seen a proliferation in the number and type of organisations seeking to claim exemption from local government property rates under the 'charitable purposes' provision of Section 6.26 of the *Local Government Act (Western Australia) 1995*.

Circumstances have now reached the point in which claims for exemptions far exceed those ever envisaged by local governments as being permissible under the 'charitable purposes' provision of the Act. Such has been the concern of local government that the sector lobbied successfully for instigation of an inquiry into this issue.

Local government's capacity to sustain effective revenue streams has also been affected by the activities of Homeswest as a substantial property holder throughout metropolitan and rural areas, in transferring responsibility for rental properties to the Community Housing Authority – a body which is exempt from rates.

Agencies such as AltinaGas and Western Power are highly profitable entities in their own right and as a consequence, provide considerable dividend-based revenues to the State. Notwithstanding, these entities are accorded special status under legislation which exempts them from payment of local government property rates.

Administration of property rates discounts arrangements for pensioners and other eligible owners under the *Rates and Charges (Rebates and Deferrals) Act 1992*, also creates a financial burden for local governments which must be borne by remaining property owners.

*Community Perceptions - local government and service delivery.*

Generally local communities are unable to distinguish which sphere of government is responsible for delivery of particular functions and services. Local government is often mistakenly viewed as the 'first port of call' and a 'one-stop shop' for many services actually provided by Federal and State agencies.

That communities often have this impression is in LGMA WA's view, reflective of the nature of services involved and the status of local government as the sphere of government closest to the people and logically placed to facilitate service delivery, subject to appropriate resources.

The veracity of this assertion is clear when considered in the context of duplication, which often occurs in services delivered, by Federal and State agencies and local government. By way of illustration, the Western Australian State Government through its Government Employees Housing Authority (GEHA), is responsible for providing housing accommodation for public sector staff employed in regional and rural areas. Local Governments are themselves, often also required to acquire and maintain appropriate housing as an incentive for qualified staff to relocate to regional and rural areas.

It would appear to be more effective from an economic and resource management perspective, for local government to be provided with the necessary funding and scope to administer 'government' housing stocks at the local community level as a basis for addressing common State and local government needs.

*Financial Assistance Grants and impact on local government services.*

**Local government has limited revenue generation capacity of its own to fully accommodate financial costs associated with the requirement to assume new and increased functions and responsibilities.**

**Limited revenue opportunities in traditional areas highlights the need for allocation to local government of Financial Assistance Grants which are tied to an agreed percentage of Personal Income Tax revenues, to ensure continued future funding growth and more accurately reflect the sector's role in providing 'people based' services.**

Local government revenue sources traditionally are predominantly 'property based' (ie: rates) with 'user pays' revenues making up a comparatively small component of the total raised. Overall, the capacity for further extension of 'user pays' revenue sources is limited, both economically and politically.

Significant legislative and local community constraints exist to prevent local governments from engaging in wide-ranging, non-traditional business activities. The NCP has also had an impact in that it requires local governments to ensure that their activities and regulatory mechanisms are not deemed 'anti-competitive'.

Further, the decline in viability of many regional and rural communities and the reversion to 'buy local' policies have in many cases, ensured that the focus of local governments has

shifted to supporting local enterprise rather than engaging in activities which may be seen as being in direct competition with business.

Accordingly, the maintenance of effective financial assistance grant allocations is considered essential to assist Local Governments throughout the State in attaining the resource levels necessary to meet local community needs.

Effort neutrality and equalisation principles inherent in Western Australian Local Government Grants Commission methodology and allocation processes are undertaken pursuant to National Principles as set down in the Commonwealth's *Local Government (Financial Assistance) Act 1995*.

However, these principles are arguably not aimed at rewarding efficiency/effectiveness in service delivery, but rather to facilitate funding allocations necessary to assist those disadvantaged local governments in providing services to a minimum standard.

This relationship between increased service responsibilities of local government and the resultant cost shifting can in LGMA WA's view, be seen in the Western Australian Local Government Grants Commission's use of disability factors as a component of its methodology and allocation processes. This being based on the premise of effort neutrality, results in funding being provided to local governments irrespective of whether services are delivered or at what level.

These disability factors which are reviewed periodically and amended as appropriate, were as follows for the Commission's 2002/2003 determinations:

<b>Box 9 - Disability Factors (as at 2002/03 determinations)</b>	
Aboriginal Environmental Health	Jetties and Boat Ramps
Climate	Location
Cyclone	Medical Facilities
Development	Population Dispersion
Drainage	Size/Shape
Environment	Socio-Economic Disadvantage
Extraordinary Planning	Special Needs (Governance)
Health Special	Special Needs (LOPS)
Heritage	Terrain
Hobby Farms	Water Supply

Source: *Review of the WA Local Government Grants Commission Methodology – Issues Paper 223-97 pp11* (www.dlgrd.wa.gov.au)

Whereas local government Financial Assistance Grants had previously been determined at a level equating to two per cent of Personal Income Tax revenue, changes over time have meant that allocations are now considerably below this threshold.

LGMA WA considers that restoration of the nexus between income tax collections and Personal Income Tax will benefit local government by ensuring continued future funding growth, whilst also reflecting the sector's contemporary role in delivering 'people-based' services to the community.

## **2. Funding and resources**

*State Government legislative requirements, responsibility transfers and cost shifting.*

**LGMA WA considers that responsibility shifting per se is not the sole source of concern, but rather, that current circumstances have been exacerbated by a general failure of State Government to support any changes through provision of ongoing, sustainable funding, thereby creating efficiency and effectiveness implications for services delivery and resources imposts on local governments.**



Past experience has shown that seed funding provided by the State to accompany a transfer of responsibility for functions and services is invariably only short term. Once the period of this initial funding has elapsed, the expectation for service delivery remains, with local government being forced to absorb associated costs within recurrent budget expenditure. Services provided are both wide-ranging and varied and include sporting/recreation facilities, culture/arts, community security and Home And Community Care programs for the aged.

An example of this fact can be seen in previous developments involving metropolitan and regional/urban local governments and their increasing role in provision of community security services for residents and commercial entities.

In 1999, following community-generated pressures arising from the impact of property-based crime (ie: burglaries and home invasions) number of metropolitan based local governments resolved to implement community security services.

The decisions of these local governments to introduce community security services and associated supporting infrastructure were at that time, invariably encouraged by the then State Government's provision of *Safer WA* program funding totalling \$4 million over four years.

According to information provided by the State Government, the *Safer WA* program is aimed at:

*"...supporting local government crime prevention activities. Initial funding consisted of grants of up to \$10,000 for community security audits, security plans and strategies. Grants of up to \$25,000 are also available to local governments for any worthwhile community security initiatives which can include:*

- *truancy programs*
- *environmental design and lighting improvements*
- *activities to reduce the community impact of drugs and substance abuse*
- *night time safety audits*
- *facilities and sporting and social events for at-risk youth*

*Funding in coming years will assist local councils to implement security plans and strategies.*

*Under this fund subsidies are also available for local government security patrols."*

Source: [www.saferwa.wa.gov.au](http://www.saferwa.wa.gov.au)

Whilst this period of State Government sponsored funding remains in effect until 2003, access to grant allocations is dependent on the success of submissions made. Community policing services remain in operation throughout the affected communities however, with local governments being required to fund these activities as part of their recurrent budgets.

Limited revenue generation alternatives available to local governments and pressures on resources have combined to ensure that provision of these services is only made possible by property owners being required to contribute to costs via annual property rates.

A recent survey undertaken of five metropolitan-based local governments indicated that significant expenditure from Council resources is being directed to community security programs as follows:

Local Government	Population	Revenue (2001/2002)	2003/2004 Budgeted Expenditure
City of Bayswater	56,160	\$31.54 million	\$0.7 million
City of Joondalup	157,431	\$66.12 million	\$1.8 million
City of Melville	97,199	\$53.49 million	\$1.4 million
City of Stirling	176,108	\$82.38 million	\$1.7 million
City of Wanneroo	83,000	\$49.37 million	\$1.4 million

The requirement for continued funding of programs aimed at enhancing community security (eg: graffiti control, security patrols) further adds to financial burdens experienced by local governments in providing a wide range of *people-based* services in areas such as: sport/recreation, culture/arts, youth services and Home And Community Care.

Uncertainty of Continuity of Funding.

**Local government has all too often been encouraged to provide new services and facilities under specific purpose funding from State and Federal Governments only to have that withdrawn or limited at a future date, leaving local government with an on-going community demand but inadequate funding.**

A further issue which has been of concern to LGMA WA for some time and which contributes to the adverse impact of responsibility/cost shifting involves funding uncertainty associated with many Federal and State programs.

Notwithstanding the 'general competence' framework which has been in place since inception of the *Local Government Act 1995*, this legislation requires Western Australian local governments to prepare and review long term strategic plans covering major activities which are to be undertaken on behalf of their communities.

Local governments have in consultation with their communities, taken the initiative in development and implementation of strategic plans which are designed to ensure sustainability of key projects and achievement of outcomes by promoting an effective use of financial, technological and intellectual resources.

Funding uncertainty and the 'ad hoc', submissions-based nature of many Federal and State programs, inhibits local governments from making long term, strategic plans for provision of new services and/or enhancement of existing ones.

An illustration of this point can be seen in State Government arrangements for determination of road funding grants to Western Australian local governments.

Negotiation of a new *State to Local Government Road Funding Agreement* between the State Labor Government and the Western Australian Local Government Association on behalf of local governments has been undertaken in the context of severe budget restrictions and leading to a projected funding decrease to the sector of \$18 million in 2003/2004.

Western Australia's *Community Sporting and Recreation Facilities Fund (CSRFF)* is another program which provides regional/rural local governments especially, with the opportunity to apply (on a matching contributions basis) for funding to implement sporting and cultural services infrastructure.

Due to limited revenue generation and reserve accumulation capacity, local governments often consider this program as providing the only avenue by which to access funding required to provide an appropriate level of sporting and recreational services in order to make their communities more attractive, sustainable centres of long term residence, employment and wealth creation.

A significant impediment to many local governments receiving funding through this program however, is often an inability to generate the matching contributions required under the guidelines.

Inconsistency of funding provided under federal and state programs can lead to long term liabilities when capital infrastructure arising from a successful application invariably leads to ongoing operational costs which are generally not capable of amelioration through external funding opportunities. Hence, the local government will be required to sustain such infrastructure through recurrent operating budgets.

Community Development is an area within which local government is becoming increasingly involved in terms of service delivery, with youth services being one of the most high demand elements due to the nature and impact of social and related issues which exist today.

*Youth Grants WA* is a Western Australian State Government program aimed at fostering a greater involvement by young persons in innovating and challenging community projects. The program aims to deliver its outcomes by way of partnerships involving young people, youth groups, community organisations, local government authorities, parent groups and other not-for-profit groups.

Whilst the initiation of such State-sponsored programs is often accompanied by a highly admirable, broad-ranging, inclusive set of principles and aims, these invariably serve as a precursor for eventual devolution of responsibility by the State to local government. In this context, pressures upon local governments arise as a consequence of community expectations that services will continue in an existing or expanded form.

*Inflexibility of funding programs and guidelines.*

**LGMA WA asserts that greater scope and flexibility should be invoked for guidelines associated with Federal and State Government programs to enable creation of general funding pools for allocation to local governments rather than the very specific schemes currently favoured by governments.**

Many of the more recent initiatives in community development areas implemented by local governments have been made possible as a result of State and Federal Government sponsored funding programs.

However, the highly prescriptive, inflexible guidelines and narrow scope of many grants programs means that local governments often cannot accommodate such requirements within their plans and operations and accordingly, are unable to secure funding. Extended timelines associated with consideration and determination of successful applications for funding also act as disincentives for local governments in making funding submissions.

LGMA WA is of the view that these restrictions have a two-fold effect upon the manner in which submissions made under these programs are considered and associated funding distributed. Firstly, unrealistic limitations imposed as a consequence of eligibility criteria invariably operate to exclude from the process, many local governments which are in need of services.

Secondly, such circumstances arguably run the risk of promoting a culture of *'grantsmanship'* in which fulfilment of the guidelines and a successful outcome in acquiring funding become the driving factors, rather than addressing particular community-based needs.

LGMA WA also considers that the effective administration of Federal Government sponsored programs and achievement of associated outcomes would be facilitated if funding was made directly to local government, where the sector is the ultimate beneficiary. Such arrangements would avoid duplication and bring greater efficiency and effectiveness to the manner in which funding is utilised.

Currently, funding provided under a number of Federal Government programs is directed through the State in the first instance before being allocated to local government. Examples of such arrangements include funding for land care and salinity programs pursued by Land Conservation District Committees and of which, local governments form an integral part, albeit that programs are currently undertaken with the involvement of the State Departments of Agriculture.

Further examples of successful direct funding arrangements involving Federal and local government can however, be seen in grants made under the Home And Community Care program and more recently, the *Roads to Recovery* program.

Also worthy of note in the context of this point, is funding provided as part of the Regional Forests Agreement (RFA) struck between the Federal Government and the States. Central to the RFA has been provision of \$56 million in compensation to Western Australia's timber and tourism industries for loss of economic opportunity arising from policy aimed at protecting old growth forests.

The experiences of many South West timber communities since implementation of the RFA suggest that local governments and their residents should have a more direct role in determining the programs and initiatives which may be implemented to alleviate the impact of these significant structural changes, thereby ensuring that economic and social viability is maintained.

### **3. Opportunities - alleviating cost shifting and improving service delivery**

#### *Eliminating duplication of infrastructure/services provided by the three spheres of government*

**LGMA WA submits that eliminating duplication of identified functions/services currently provided at the local level by the three spheres of government in favour of a local government based delivery mechanism, will generate actual economic/financial savings.**

**Efficiency savings derived from elimination of duplication, should be directed to local government as a basis for enabling delivery of expanded services in areas such as education, health, youth programs and aged care.**

As advocated previously in this submission, local government by virtue of its position and role in the community could (subject to appropriate funding and resourcing) assume and develop a 'one-stop shop' role for delivery of identified Federal and State Government functions and services.

The emphasis on 'identified' functions and services is significant, given that LGMA WA and its members are not advocating adoption of the European and United States models, in which local governments are fully responsible for delivery of comprehensive health, educational and law enforcement services.

The Western Australian experience has shown that promotion of the 'one-stop shop' framework could be facilitated through a better use of resources, with particular emphasis on eliminating duplication of State and local government infrastructure that exists in many regional and rural areas.

The commercialisation of public utilities over recent decades, which resulted in a rationalisation of service delivery most notably in rural areas, has led to the existence of infrastructure (eg: supply/storage depots, office premises, etc...), which is obsolete. This infrastructure could be rationalised as a basis for promoting greater efficiency of resource use and brought under the control and responsibility of local government in the context of any expanded, 'one-stop stop' service delivery role.

Regional cooperation and resource sharing among local governments.

**LGMA WA considers that structural reform of the sector and regional cooperation are likely consequences of a model in which local government is to assume a greater role in local delivery of government services.**

**Local Government Grants principles and allocation methodology should also be reviewed to encourage structural reform and regional resource sharing.**

Efficiency in service delivery should be pursued by encouraging regional cooperation and resource sharing among local governments in their delivery of an expanded range of functions and services. This is considered as being especially critical, in assisting those rural and remote local governments which do not have the capacity on their own to acquire or access funding, infrastructure and/or human resources required to facilitate service delivery.

A *Contemporary Issues in Local Government* survey commissioned in 1998 by the then Western Australian Department of Local Government revealed that, of the 120 respondents:

*"76% ...shared resources with other local governments under informal arrangements. Of particular interest is the diversity of the types of resources shared, ranging from health/building staff (28%), plant and equipment (23%) and community facilities (11%) through to smaller numbers sharing storage facilities, computing services, consultants, advertising, design services and other activities."*

Source: WA Municipal Association (1998).

The current position of the W A Local Government Grants Commission does not foster this trend towards restructure and resource sharing. The Commission has said that it cannot, under the current legislation, continue grant levels to amalgamated councils at the combined levels they received before amalgamation. In a very recent case this position prevented a logical and justified amalgamation from going ahead.

#### Intergovernmental Financial Relations.

**LGMA WA submits that an opportunity exists by which a guaranteed share of GST revenues collected by the Commonwealth for apportionment to the States may be earmarked and/or allocated directly to local government in support of any enhanced service delivery role undertaken by the sector.**

A further area for consideration in terms of reform aimed at supporting the objective of bringing greater efficiency and effectiveness to local community service delivery, involves that of intergovernmental relations and distribution of taxation revenues.

Implementation of the 'A New Tax System (Goods and Services Tax) Act 1999' and introduction of the Goods and Services Tax (GST) has created a more flexible, adaptable and arguably more efficient taxation framework, with substantial revenues now being collected by the Commonwealth and apportioned to the States.

The efficiency of Commonwealth taxation collection arrangements is evident in the Federal Government's own Budget papers which indicate that GST revenue totalling \$29.38 billion is estimated to flow to the States during 2002/2003. Of this sum, \$2.83 billion has been earmarked for Western Australia, with a further \$45.7 million to be allocated directly to local government through Specific Purpose Payments.

By comparison, the 2001/2002 Budget estimated total State GST revenue allocations as being \$26.85 billion, with Western Australia to receive \$2.56 billion. Specific Purpose

Payments direct to Western Australia's local government sector during this period were estimated at \$72.8 million.

It is considered only reasonable therefore, that local government's commitment to fostering economic efficiency and effectiveness through adoption of an enhanced service delivery role should be appropriately recognised in intergovernmental revenue distribution arrangements.

Further, any guaranteed share of GST revenues allocated as part of any revised taxation arrangements should be growth based and reflective of local government's real service delivery role in the community.

#### **4. Conclusion**

##### *Key Position Statements and Recommendations – LGMA WA Submission*

By way of conclusion to its submission, LGMA WA considers it appropriate to reiterate the key position statements and recommendations made in respect of various matters for consideration by the Inquiry as follows:

- **LGMA WA submits that increased pressures for service delivery to local communities are predominantly the result of an ongoing devolution of responsibilities and functions by State to local government and thereby resulting in cost shifting.**
- **LGMA WA asserts that this change in Local government's service delivery focus from being predominantly *property-based* to one which is *people-based*, necessitates pursuit of alternative, more flexible sources – notably the provision direct to local government, of a guaranteed share of GST revenue.**
- **Limited revenue opportunities in traditional areas highlights the need for allocation to local government of Financial Assistance Grants which are tied to an agreed percentage of Personal Income Tax revenues, to ensure continued future funding growth and more accurately reflect the sector's role in providing '*people based*' services.**
- **LGMA WA asserts that greater scope and flexibility should be invoked for guidelines associated with Federal and State Government programs to enable creation of general funding pools for allocation to local governments rather than the very specific schemes currently favoured by governments.**
- **LGMA WA submits that eliminating duplication of identified functions/services currently provided at the local level by the three spheres of government in favour of a local government based delivery mechanism, will generate actual economic and financial savings.**
- **Efficiency savings derived from elimination of duplication, should be directed to local government as a basis for enabling delivery of expanded services in areas such as education, health, youth programs and aged care.**
- **LGMA WA considers that structural reform of the sector and regional cooperation are likely consequences of a model in which local government is to assume a greater role in the local delivery of government services.**
- **Local Government Grants principles and allocation methodology should also be reviewed to encourage structural reform and regional resource sharing.**
- **LGMA WA submits that an opportunity exists by which a guaranteed share of GST revenues collected by the Commonwealth for apportionment to the States may be earmarked and/or allocated directly to local government in support of any enhanced service delivery role undertaken by the sector.**