

Hindmarsh
Shire Council

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

Submission No: 348

Date received: 14/3/03

Secretary: _____

1.4.1.1 / 080203

12 March 2003

Ms Susan Cardell
Inquiry Secretary
House Economics Committee
Parliament House
CANBERRA ACT 2600



Administration
Centre
P.O. Box 250
92 Nelson Street
NHILL VIC 3418
Ph: (03) 5391 1811
Fax: (03) 5391 1376
email: info@hindmarsh
vic.gov.au

Customer Service
Centres

Jeparit
10 Roy Street
JEPARIT VIC 3423
Ph: (03) 5397 2070
Fax: (03) 5397 2263

Dimboola
101 Lloyd Street
DIMBOOLA VIC 3414
Ph: (03) 5389 1734
Fax: (03) 5389 1734

Rainbow
Federal Street
RAINBOW VIC 3424
Ph: (03) 5395 1436
Fax: (03) 5395 1436

Dear Ms Cardell

COST SHIFTING DISCUSSION PAPER

Thank you for the opportunity to comment on the "At the Crossroads"
Cost Shifting discussion paper.

The Council welcomes the Committee's recognition that growth in local government's functions has far outstripped its financial capacity to discharge all functions adequately; and that this is especially true in rural and remote regions where councils have a limited revenue base and low population.

We appreciate the Commonwealth's financial commitment (\$1.4B pa) and its interest in ensuring a healthy system of Local Government, while recognising the constitutional rights of the States.

We support the following views of the Australian Local Government Association (ALGA), in its supplementary submission:

- The Productivity Commission should conduct an immediate, full, and detailed assessment of the extent of cost shifting.
- The Commonwealth must correct the current revenue sharing inequities that disadvantage Local Government.
- Solving the vertical fiscal imbalance problems experienced by Local Government should not be left to the States.

...2.

We offer the following comments and responses on the questions and options contained in the Discussion Paper:

1. *Is there a need for significant changes to local government's current package of roles and responsibilities?*

Local Government is very well placed to assume many responsibilities, if sufficient funding is provided. Many specific purpose agencies have been created, where the functions could have naturally been undertaken by Councils (having institutional capacity, legal status, and an existing infrastructure of depots/offices/systems). Costs of bureaucratic duplication could be avoided.

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

The opportunity to participate in new responsibilities (providing they are appropriately resourced) would improve the 'economies of scale' of rural shires, and allow fixed overheads to be spread over an increased range of activities.

The 'conduct' of responsibilities (and not the 'nature' of responsibilities) would reflect differences in resources and size. For example, we undertake a number of services on a 'shared' basis with a neighbouring Council.

However, a 'one size fits all approach' should be avoided in imposing additional regulatory responsibilities on local government (i.e. waste management).

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

Victoria has seen the number of Councils reduced from 210 to 79. Such reform is not as readily observable in other States. Clearly, the viability of Councils with less than two thousand people, can be questioned – but communities of interest, geography, and distance are important considerations.

We suggest that restructuring should only occur with the consent of affected communities, and that the Commonwealth (and States) should offer incentives.

4. *Is cost shifting a growing problem?*

Definitely. Consider the example of a Council-operated kindergarten in a small rural community. The Victorian Government offers a subsidy of \$2,420 per child. It is State Government policy that each child should receive one year of pre school education (but communities and Councils are left to pay). The cost of a teacher and assistant (regulatory minimum staffing) for 10 hours per week is \$28,000 per annum (including statutory on costs). The minimum number of children for this centre to break even (on salary costs alone) is 12. Additional costs for energy, materials communications and building maintenance add over \$10,000 each year to the cost of running each centre. We are involved in four kindergartens, given our dispersed centres of population.

As populations in rural towns decline, this service is costing more. Economic rationalists could argue the centre should be closed and the four-year-old children can travel up to 150KM's (round trip) several times each week, to a larger centre.

The 'gap' in funding our HACC, kindergarten, library, and maternal child health services, is growing. Funding arrangements generally to not take full account of:

- Wage increases
- Increased costs of travel due to distance & the absence of public transport
- Dispersion
- Duplicated points of service delivery
- Low population density
- Remoteness.

It costs more to do business in non-metropolitan Australia – communications, petrol, all services and goods with a transport component.

5. *Are there examples of successful State-local government arrangements to deal with cost shifting?*

None known

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

Promote State 'understanding of' and 'commitment to' alleviating the problem. If local government services and assets deteriorate because of cost shifting – the delivery of Commonwealth and State programs will be adversely affected, and national communications and security will be compromised. Think about delivering Commonwealth and State programs over increasingly inadequate local roads!

...4.

7. What specific steps might be taken to generate significant increases in income from local government's established revenue base?

In common with most Rural Shire Councils, we are already making a more than reasonable effort to raise income from rates (higher than average implied rate). Rural rating levels are higher per capita than in metropolitan areas. However, our household income levels are below regional and State averages. A similar pattern applies to property values, which vary from medium to low. These characteristics do not provide answers, where we can seek financial solutions from ratepayers or increased user charges.

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

No response. Not applicable.

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

Financial arrangements should reflect actual costs, and be subject to indexation. Funding arrangements should take full account of:

- Wage increases
- Increased costs of travel due to distance & the absence of public transport
- Dispersion
- Duplicated points of service delivery
- Low population density
- Remoteness.

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

The guaranteed minimum FAGs grant should be abolished – it is contrary to the principles of equalization. Large metropolitan councils with 'windfall' revenues from parking fees/fines, do not require Federal FAG assistance.

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

The current population basis for General Purpose grants should remain unchanged. The national allocation of Local Roads grants should also be on a population basis.

- 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?**

Each State should continue to allocate FAG's in accordance with national principles.

- 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?**

The Commonwealth could move to direct funding of home and community care programs, and should increase funding for Roads to Recovery.

Councils should be given a share of GST revenue – a growth tax. A review of service delivery arrangements for all Federal and State programs should be conducted, as some could be transferred to local governments to provide additional 'economies of scale' – i.e. service delivery in national parks, pest plant and animal control, local public transport (subject to sufficient funding).

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

Utilise revenues from bracket creep and growth in fuel excise. The State and Commonwealth Government must share responsibility for funding the provision of local infrastructure – recognising vertical fiscal imbalance.

If local infrastructure deteriorates beyond an acceptable level, State and Commonwealth programs, national security, communications and community safety will be compromised.

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

The States should allocate a fixed percentage of GST revenues to funding Local Government infrastructure.

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

It is best to work with the existing three tiers of government, rather than endeavour to create a fourth 'regional' tier. Stronger units of local government can overcome 'regional' problems. Federally recognised regions (ie ACCs) are inevitably too large and fail to be recognised as regions.

Some issues and shared interests, cannot be neatly divided into 'regions' (eg timber towns).

A strong system of local government should be promoted, avoiding the need for a fourth tier of 'regional' government.

- 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 cooperation and resource sharing amongst council's as a key element of service delivery?**

The North West region of Victorian Councils already sponsors a very effective regional organisation (North West Municipalities Association), which costs very little to operate.

- 18. What are the specific areas in which local government sees a need to rationalise roles and responsibilities with the Commonwealth and States?**

Responsibilities for human services, environmental regulation, and natural resource management can be rationalised i.e. service delivery in national parks, pest plant and animal control, local public transport (subject to sufficient funding).

- 19. Is there sufficient exchange of information between States and "best practice" intergovernment relations? If not, how could such exchange be improved?**

No. A fundamental re-think and review of the role and functions of the Australian system is necessary. This will not happen in the current climate of poor relations between the 'Labour' States and the 'Coalition' Commonwealth.

Real leadership is required.

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

The 'AusLink approach' at this stage is largely unknown and untested. The 'Region' proposals in the AusLink paper are not defined.

- 21. Should capacity building for local government be approached on a national basis? If so, what are the priorities for a national program?**

Capacity building can be approached on a national basis, but programs could be administered by State Local Government Associations. Priorities would include the adoption of standards for asset management, and agreed definitions of financial sustainability (assessment of long term debt and infrastructure gap).

A national priority should be voluntary structural reform.

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

Use the ALGA and State Local Government Associations – do not create a new Federal bureaucracy.

23. Would local government support some form of accreditation assessment in return for an increased role in the administration of Commonwealth programs?

Yes. A form of accreditation assessment, in return for an increased role in the administration of Commonwealth programs, is supported.

OPTIONS

Option 1A (intergovernmental agreement on FAGs) – supported.

Option 1B – opposed. State based FAG distribution should remain.

Option 1C – opposed. FAGs should not be part of broad banded program grants.

Option 1D – opposed. FAGs should remain untied.

Option 1E – insufficient information provided in discussion paper.

Option 2 (include LG in Commonwealth-State financial agreement, and consider viability, additional support, and the need to reduce cost shifting and revenue restrictions) – supported.

Option 3 (Local Government and Planning Ministers Council) – opposed. How would Councils, ALGA, and Local Government Associations be involved?

Option 4 (national study into infrastructure needs and funding) – supported.

Option 5 (maintain Roads to Recovery in the longer term) – supported.

Option 6 (use established regional organisations) – opposed – concentrate on fostering a stronger system of local government, rather than creating another 'regional' tier of government.

Option 7 (Local Government and Planning Ministers Council) – opposed. How would Councils, ALGA, and Local Government Associations be involved?

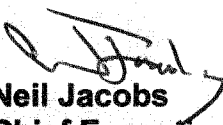
Option 8 (ensure LG is a partner in Specific Purpose Payment agreements) – supported.

Option 9 (funding of capacity building and accreditation) – part supported. Commonwealth and States to finance capacity building – do not reduce FAGs. Utilise ALGA and State Local Government Associations, rather than create another Federal agency/bureaucracy.

Thank you for the opportunity to comment.

We would welcome the opportunity to demonstrate our concerns in detail.

Yours faithfully


Neil Jacobs
Chief Executive Officer