

NILLUMBIK SHIRE COUNCIL'S  
SUBMISSION TO THE  
HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC  
ADMINISTRATION  
INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

AUGUST 2002

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## INTRODUCTION

Nillumbik Shire Council welcomes and appreciates the opportunity to provide a submission to this *Inquiry*. Additionally, we trust that the outcomes from the *Inquiry* will further enhance the role of local government, as one of the three levels of government within the public sector working to improve the wellbeing and service standards for Nillumbik residents. The best way to do this is to recognise local government in the constitution and ensure appropriate access by local government to growth funding from both Federal and State Governments.

Our submission follows the *Terms of Reference* articulated for this *Inquiry*. We see it as an opportunity to highlight the major financial crisis facing local government if relationships with both Federal and State politicians and bureaucracies are not improved to better reflect current circumstances and future sustainable realities for the Nillumbik community.

The responses to *Inquiry* questions includes the Federal Government given that the broadest possible context is required to get a full understanding relating to the impacts on local government.

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

## **1. LOCAL GOVERNMENT CURRENT ROLES AND RESPONSIBILITIES.**

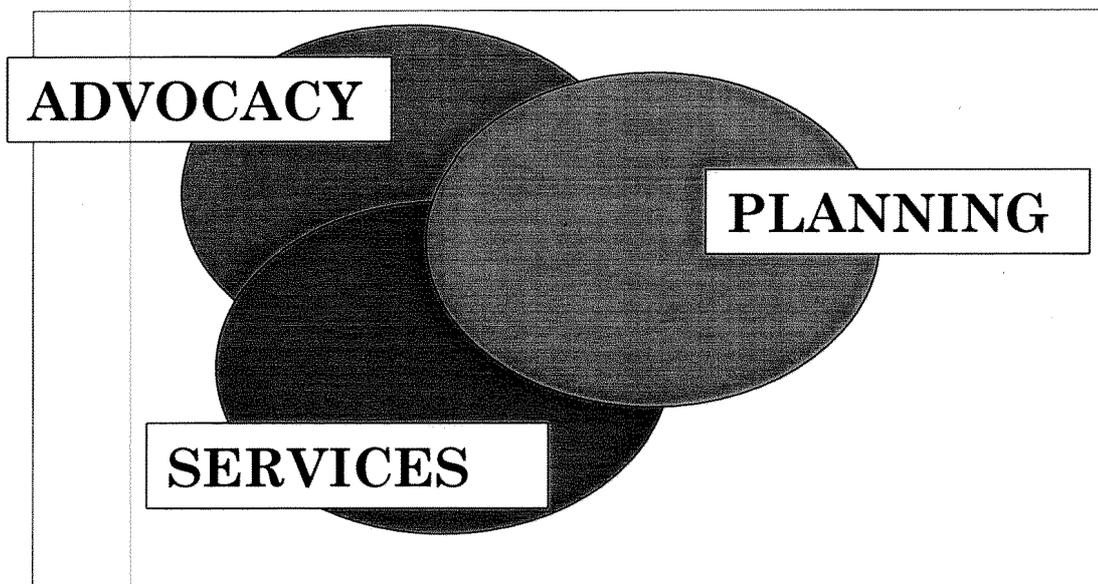
Current roles and responsibilities for local government have six components—it reflects community desires, expectations and aspirations; it must be recognised constitutionally; it is a public sector organisation not a profit making business; it has statutory obligations; it requires National Standards as an entity and for services.

### **1.1 Local Government's Role reflects the desires, expectations and aspirations of its community.**

Local Government Authorities (LGA's) represent their respective communities in whatever way those communities desire. Hence, ideologically there is no limit to the role of local government. However, typically and practically, the role combines the three broad aspects of advocacy, planning and service provision as outlined in Figure 1. *Local Government's Three Broad Roles- Advocacy, Planning and Service Provision.* These three roles interrelate and on any given occasion the emphasis between each of the three varies depending on the issues and drivers at hand.

In relation to services, typically local government seeks to ensure those services desired by the community are delivered timely and in close proximity locally by whoever is best placed to deliver them. Which organisation is best placed to deliver them is dependant upon a number of significant factors such as values, employment, available expertise, logistics, frequency, economies of scale, volume and resources required. Hence, garbage collection is better organised and provided locally but a police force is better organised from a State perspective.

FIGURE 1: LOCAL GOVERNMENT'S THREE BROAD ROLES – ADVOCACY, PLANNING AND SERVICE PROVISION.



These roles are not necessarily provided exclusively by the respective LGA, however, the LGA ensures it activates the strategies through these roles are undertaken. For example a Council may not undertake advocacy itself, but may exercise its membership with a statewide organisation such as the Municipal Association of Victoria to advocate to the Federal Government regarding much needed additional funding for roads. Council's must be able to maintain flexibility in their meeting of community expectations in whatever way is deemed appropriate by the respective LGA.

## 1.2 Constitutional Recognition of Local Government Role Vital

Recognition of its role and the various aspects of the role, is vital into the future if local government is to be the serious *third level of government* within the Australian democratic landscape. As such local government requires constitutional recognition regarding its role and responsibilities. If this is to be the case, accordingly it is imperative that local government has access to ongoing growth funding streams to maintain and enhance this fundamental role.

Currently, local government is heavily reliant on Federal and State Government *General and Special Purpose Grants*, all of which have

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not been keeping pace with real costs or community expectations, and which can fluctuate depending on the political priorities in these political spheres or the emphasis of the respective administrations.

For example, *General Purpose Grants* because of the application of the *Grants Commission Formulae* over the past four years has seen Nillumbik Shire Council reduce its grant allocation by \$419k<sup>1</sup> or \$708k in real terms, because of the nature of Nillumbik ie where the boundaries were drawn in 1994. After the *Review of the Formulae*, Nillumbik's allocation increased by \$250k more accurately reflecting our community's needs and expectations.

These needs have not changed that dramatically over the intervening years; what has changed is the sophistication of the *Formula* to more accurately reflect Nillumbik's Local Government circumstance. In the intervening years, the more appropriate level of funding (because of the formulae used) has not been available for use by the community. This is one of the reasons, coupled with limited commercial and industrial properties and associated potential cross-rating subsidisation, why Nillumbik is the highest residential rating Council in Victoria.

This means that for the same basic services, Nillumbik residents pay more Council rates and because of their incomes, pay more Pay As You Earn (PAYE) tax to the Commonwealth Government<sup>2</sup> without receiving the associated benefits. While Nillumbik residents share the Australian egalitarian values of supporting the less-fortunate, the current structural taxation/funding system is not working to maintain basic public service expectations for Nillumbik residents.

### **1.3 Local Government is a public sector organisation not a profit making business.**

As the third tier of government, Local Government is not a business – it does not make, nor is intended to make 'profit' and hence, does not become involved in high risk financial ventures or investments. It is a public sector organisation dependent upon income from Federal and

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<sup>1</sup> K=thousand

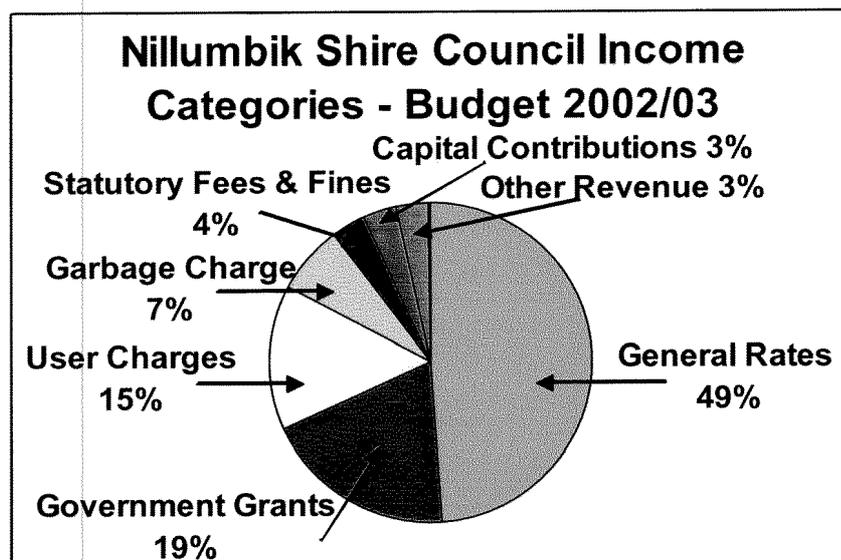
<sup>2</sup> Victorian Grants Commission (2000), *Review of the allocation of General Purpose Grants to Victorian Councils, an options paper prepared for consultation with Councils*, Australian Bureau of Statistics, *Income data 1996*, p. 85

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State Governments as described as well as user charges and fees. A detailed breakdown of income for Nillumbik is outlined in the following graph.

GRAPH 1: NILLUMBIK SHIRE COUNCIL BUDGET INCOME CATEGORIES 2002/03



Once all non-rating sources of income are identified, the additional income required to maintain and develop basic services and capital infrastructure to a community is made up by rate revenue, which is directly 'billed' to residents unlike PAYE or GST which are less visible taxes. At the point of 'billing' ratepayers have an identifiable decision point about the performance of the local Council. This is often skewed because the ratepayer does not realise what they are paying in the rate notice is the direct result of the degree of Federal and State funding coming to the various programs and services offered by the local government.

In Nillumbik's situation, rate revenue in 2002/03 represents 49% of the income stream. One of the main reasons why this is at this level is due to cost shifting from Federal and State Governments which automatically increases the rate burden of LGAs where residents desire or need to have the same level of service. The details of this cost shifting is further explained in section 4.

#### 1.4 Local Government has statutory obligations.

The *Statutory Framework* within Australia has the following hierarchy of legislation.

- Federal Acts
- Federal Regulations
- State Acts
- State Regulations
- Council Local Laws

There is a basic cost associated with the undertaking of this legal governance obligation, including the implementation of new or changes to existing Acts. For local government, this cost is rarely recognised by legislators at the Federal or State level. Over the past twelve month period examples of new legislation has included the *Privacy* and *Whistleblower Acts*.

As an organisation, Nillumbik will spend an additional \$50k in productivity and associated costs for the implementation of these two pieces of legislation which due to the organisations resource base is absorbed into general operations, preventing other more pressing issues to be addressed.

Further, local governments are charged with the legal responsibility to undertake a range of activities in accordance with over twenty specific pieces of legislation including the *Local Government Act 1989*, some of which are as outlined as follows.

- *Planning and Environment Act 1987*
- *Building Act 1993*
- *Subdivisions Act 1988*
- *Health Act 1958*
- *Food Act 1984*
- *Occupational Health and Safety Act 1985*
- *Environment Protection Act 1970*
- *Domestic (Feral and Nuisances) Animal Act 1994*
- *Freedom of Information Act 1982*
- *Litter Act 1987*
- *Fences Act 1968*
- *Sale of Land Act 1962*
- *Information Privacy Act 2001*

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- *Whistleblowers Act 2001*
- Various Industrial Relations Acts and Awards

Additionally, LGA's are required to adhere to a range of Federal and State policies and programs such as *Citizenship Ceremonies* for which costs are incurred by LGA's for which no subsidisation from the respective State Government Department's is available.

**1.5 Local Government requires National Standards regarding its role and responsibility.**

It is frustrating that local governments around Australia have different roles and responsibilities. There are no *National Standards* in relation to these roles and responsibilities the majority of which have developed historically. While the *Local Government Act 1989* is being updated in Victoria, each state in Australia has different pieces of legislation under which they operate. Legislative standards in this area would assist clarify roles and associated funding formulae. This standardisation, however, must remain flexible to take into consideration the needs, desires and aspirations of particular communities as well as the role of Federal and State Governments within the public sector.

**1.6 Local Government requires National Standards regarding service access based on sound, agreed public policy positions for generic and targeted programs.**

*National Standards* regarding services are slowly being developed across various professional service areas such as childcare, aged care, and roads and which comprise major components of recurrent services expenditure for local governments. Realistic unit costs associated with these standards are an imperative when these standards and funding formulas are developed. Currently most Federal and State grant funding unit costs are unrealistic to current market prices.

Realistic unit costs vary from LGA to LGA depending on a wide range of factors within the particular LGA such as needs, expectations, policy directions, economies of scale, industrial issues and market presence. While Compulsory Competitive Tendering (CCT) in Victoria sought to reduce unit costs in the short term, in the long term in many service areas unit cost reductions were not sustainable as the economic and business realities of quantities of scale and market

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presence were not realistic for all communities. This was particularly evident in Regional Victoria through the late 1990's.

It is acknowledged that there is a long way to go to develop realistic variable unit costs and funding formulae, however, any acceleration of the development of these Standards would assist LGAs in relation to recurrent services.

In relation to Capital aspects of LGA expenditure, many traditional infrastructure capital expenditure areas provided by local governments are not being maintained at their required rate, nor increased at the rate required to meet population demand.

This was recently recognised by the Federal Government in the newly created *Roads to Recovery Program*, but generally is either not recognised at all by either the Federal or State governments, or is only recognised when substantial political pressure is brought to bear. It would be advantageous to have continual pro-active dialogue between all three tiers of government in a continuous improvement manner.

**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.**

As outlined previously, alternative funding sources for LGA's are limited due to the nature of local government as a public sector, third tier government. Additionally, Nillumbik did not have an electricity supply to be purchased by the State Government in the mid-1990's and hence, does not have this substantial potential investment stream to offset expenditure, as do the six Victorian municipalities which had these businesses.

As outlined in section 1.3 previously, there are seven income streams contained within the *2002/03 Nillumbik Budget*. These are described as follows.

1. *General Rates* (49% of total income) include residential, multi-dwelling, farm land, commercial and industrial, residential 1 and township zones vacant land, other zones vacant land, and cultural and recreational land. 83% of general rates or 40% of total income is derived from residential rates. This reflects the highly dormitory

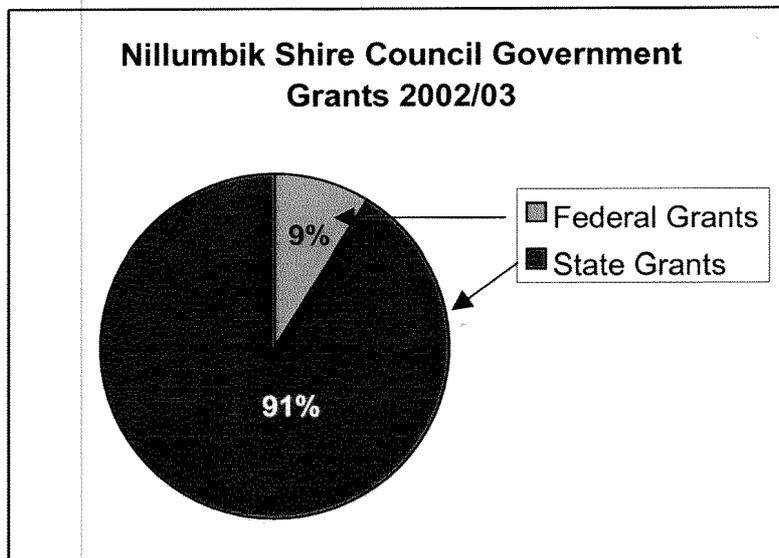
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nature of the municipality with minimal cross subsidisation opportunities from the commercial and industrial sector and inadequate Federal and State Government grant levels.

2. *Government Grants* (19% of total income) comprise grants from Federal (9% of total Grants or 2% of total income) and State Governments (91% of total Grants or 18% of total income). The Federal and State Government proportion of total grants is outlined in Graph 2: Nillumbik Shire Council Government Grants 2002/03 below.

**GRAPH 2: NILLUMBIK SHIRE COUNCIL GOVERNMENT GRANTS 2002/03**

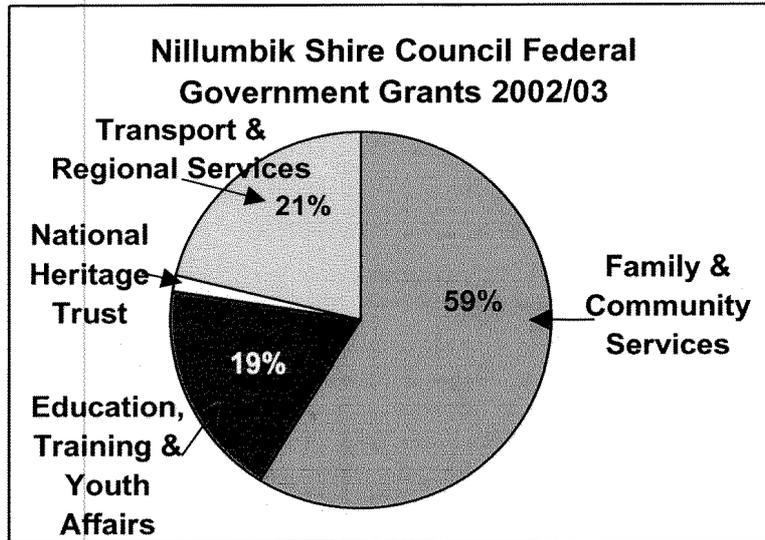


Federal grants are received from four Federal Departments the most income of which comes from Family and Community Services (59% of Federal Grants), Transport and Regional Services (21% of Federal Grants) and Education, Training and Youth Affairs (19% of Federal Grants), the graph for which is provided below.

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**GRAPH 3: NILLUMBIK SHIRE COUNCIL FEDERAL GOVERNMENT GRANTS 2002/03.**

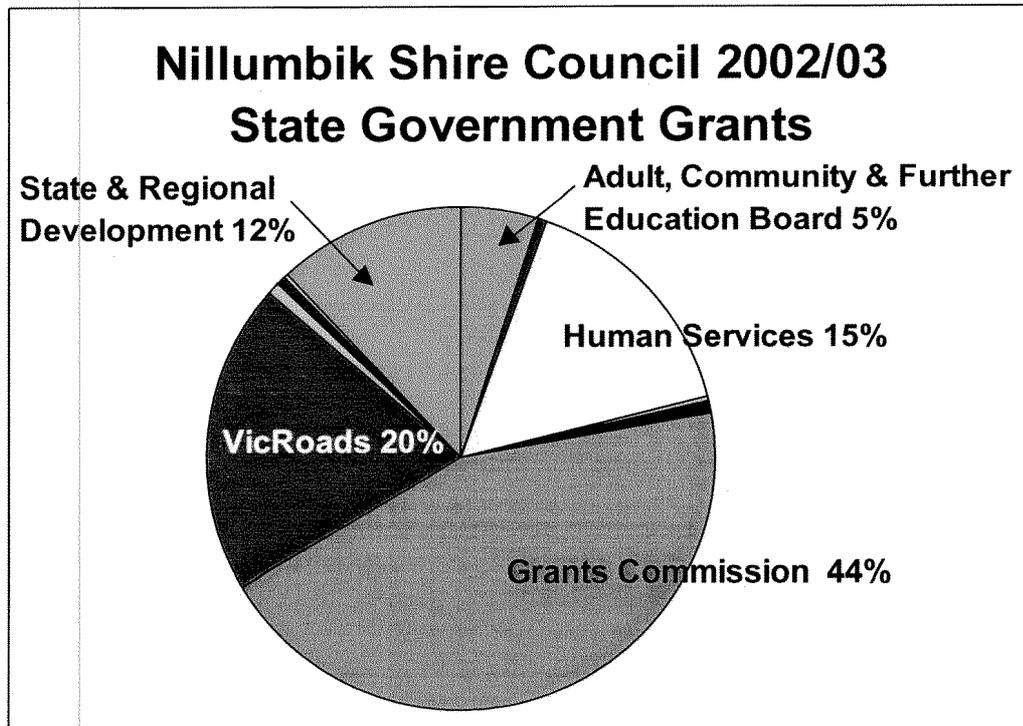


State grants are received from twelve State Departments, however, these figures include income from Grants Commission (44% of State Grants, 40% of Total Grants or 8% of total income) and VicRoads (20% of State Grants, 18% of Total Grants or 4% of total income) which could be argued are not technically 'Government Departments'. The other higher income source Departments include Human Services (15% of State Grants, 14% of Total Grants or 3% of total income) and State and Regional Development (12% of State Grants, 11% of Total Grants or 2% of total income). This is shown in Graph 4 Nillumbik Shire Council State Government Grants 2002/03 following.

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GRAPH 4: NILLUMBIK SHIRE COUNCIL STATE GOVERNMENT GRANTS  
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3. *User Charges* are those fees charged on a user pays or fee for service basis and are reviewed annually in light of the current Consumer Price Index (CPI), demand and market considerations.
4. *Garbage Charges* are required to ensure adherence to the Environment Protection Authority (EPA) requirements for capping works and leachate monitoring at the Plenty Landfill site, as well as annual bin audits and membership of the Northern Region Waste Management Group.
5. *Statutory Fees and Fines* are issued under legislation or regulation. Council has no control over the unit price or volumes expected through the year.
6. *Capital Contributions* fluctuate depending on the level secured each year. It includes income from sponsorships, contributions, trusts, bequeaths, 'naming rights', service clubs, churches, or charities.

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7. *Other Revenue* also fluctuates depending on market conditions and includes statutory developer contributions, interest received and Council's *National Competition Policy* payments.

Specific information regarding programs and service areas is contained in answer to question 4 following.

**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.**

Local Governments already undertake these opportunities where there are clear advantages to be gained by partners. In Nillumbik's situation examples of this include:-

- *Federal/State Electorates* usually span various local government areas. Members of parliament often work diligently across a number of LGA's to improve community life as most Federal/State governmental responsibilities do not align with local government boundaries.
- *Services* such as the Yarra Plenty Regional Library comprises three local government areas and the Northern Regional Waste Service comprises six local government areas. These are both legal entities in their own right. Other regional or inter-local governmental connections include tourism, homecare, meals preparation, pound, and youth services.
- *Planning and Advocacy* groups and partnerships such as the Interface Group, Eastern Region Group of Councils, and the North Eastern Region Group of Councils all provide valuable opportunities to action Council's goals and aspirations.

**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 is three components to the answer to this question. One relates to cost shifting current services from Federal and State Governments to local governments which increases local government expenditure due to withdrawal of funding from the other two tiers of government. The second is similar, but relates to grant levels not meeting the real costs as dictated by the market, and the third, relates to increased costs relating to statutory compliance which are not recognised by Federal or State legislators.

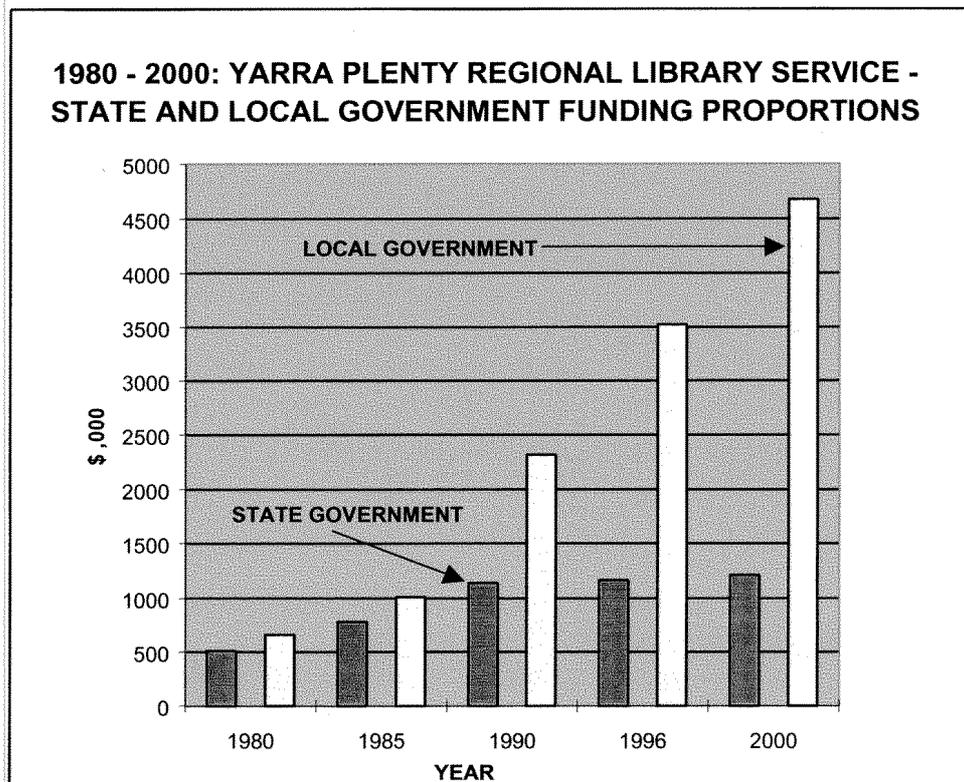
All three components have minimal involvement or consultation from local government when they occur, and all fail to recognise the desires and expectations of local communities when changes occur. Each of these components are further outlined as follows.

1. Costs associated with shift. These are listed as follows with a brief explanation.
  - *Road funding*: VicRoads fund maintenance to a level of 1% of the asset value. VicRoads admit that the level should be around the 2% to meet appropriate community standards; Risk of over expenditure on Main Road projects shifted. Project variances are not being accepted by VicRoads as a claimable cost (This is a once-off impact. The solution is to not undertake further VicRoads works unless an excessive contingency is established.)
  - *Waste*: Land fill levy is being applied by EPA at a rate of \$4/tonne.
  - *Maternal and Child Health*: Early release of post natal mothers has resulted in additional workload on MCH Service.
  - *Statutory Planning*: Inadequate Statutory fees not reflecting full cost of providing the service required; introduction of ResCode and the introduction of additional assessment procedures have resulted in additional costs.

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- *Septic/Sewer Inspections*: assessment of compliance with sewer connections is a role that the water and sewerage authority should fill; assessment of the quality of stream water from septic systems.
- *Graffiti Removal*: removal of graffiti from public authority assets. While this is discretionary for Councils, unless it is undertaken, Council's image is affected.
- *Childcare*: In the 1960's subsidies were available for centres on a 50-50 basis. These are no longer available.
- *Libraries*: in the 1980's the funding formulae by State Government was 50-50, now is 80-20 as evidenced in the following graph.

**GRAPH 5: 1980 – 2000: YARRA PLENTY REGIONAL LIBRARY SERVICE – STATE AND LOCAL GOVERNMENT FUNDING PROPORTIONS.**



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2. Underfunding by Federal and State Governments is identified and briefly explained as follows.

- *Road Funding*: Blackspot funding occurs on projects with a Benefit Cost Ratio (BCR) of 2.8 or more. The local community is required to fund other required Blackspot projects that cannot be funded and still exceed BCR 3. VicRoads will not meet the reasonable and demonstrated need for on and off road maintenance. The backlog of VicRoads funding requires greater maintenance expenses by Council. What were previously accepted construction costs and standards, are no longer accommodated by VicRoads (This is a once-off impact. One solution is to not participate in VicRoads projects, however, this will result in community dissatisfaction on the basis of a lesser standard of works). Changes to road limits and the impact of heavy vehicles (B-Doubles and B-Triples) on local road networks remains an issue. The management of roadsides, particularly for land and facilities adjacent to freeways such as paths, open space, linear parks and bicycle paths remains an issue.
- *Public lighting*: VicRoads cost shares 50% of the provision of lighting on declared roads. Council pays 100% of costs.
- *Stormwater*: Melbourne Water levies a drainage charge in the metropolitan area of some \$92m, it spends some \$50m on Capital and Operational expenses. The \$42m is paid back as a dividend and loan repayment to Treasury.
- *Openspace*: Parks Victoria levies an open space development charge for which local government receives little or no return.
- *Library*: Inadequate State funding (as previous).
- *Home and Community Care*: Inadequate State and Federal funding. Delivery costs have increased at an annual average rate of 3% - 4% while funding adjustments have equated to an average annual rate of less than 1%.
- *Maternal and Childcare*: Inadequate State funding. The effective rate of funding for MCH Nurse per hour is approximately \$24, at least 15% below what is required to meet current costs.

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- *Municipal Recreation Officer*: Subsidies were available in the 80's, however, they were only for a 12 month period, and are no longer available.
  - *Youth workers*: similarly, subsidies were available in the 80's, however, they were only for a 12 month period, and are not longer available.
  - *School Crossing supervisors*: these should be funded at their full cost by the Education Department, as should capital works in the vicinity of schools.
3. Increased costs associated with compliance are outlined briefly as follows.
- *Preschool/Childcare Regulation Changes*: buildings.
  - *Open Space*: regulation regarding one-way valves on water systems and cost of hydrants, maintenance etc.
  - *Food Safety*: gap between Food Act requirements and allowable fees.
  - *Animals*: restrictive dog breed (pit bull terrier) legislation and increase in levy to State for dog registration fees.
  - *Places of Public Entertainment*: assessment and compliance.
  - *Tobacco*: compliance with current program.
  - *Best Value reporting*: cost of compliance with legislation.
  - *Building control*: requirement for all aged accommodation to have fire sprinkler systems, requirement in relation to essential services in public buildings, swimming pool fencing.
  - *Disability Discrimination Act*: requirement for upgrade of infrastructure and assets to meet statutory regulations.
  - *Noise Regulations*: Shift of responsibility for noise complaints from EPA to local government.

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- Other Acts eg. *Local Government Act 1989, Planning and Enforcement Act.*

In addition to reducing Federal and State Government funding, there are a range of financial market dictated issues such as insurance, superannuation, industrial enterprise bargaining pressures which further exasperates financial pressures for local governments. These items for Nillumbik for the 2002/03 Budget are in the order of \$830k.

**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.**

There must be constitutional recognition for local governments in the same way as there is for Federal and State Governments with associated funding streams. Once this is established the associated funding streams ie access to growth funds for local governments is also required in order for local communities to be better served by the public sector as a whole within this country. The three tiers of government must join together more frequently and in improved partnership relationships for this to occur.

From a local government perspective given that Federal and State governments have access to growth funds, and funding to the local government sector has decreased, one has to wonder where the additional revenue has been expended. One known area for expenditure improvement is reducing the cost of Federal and State Government bureaucracies and administrations. Victorian local governments as a result of the Kennett reforms in the mid-late 1990's have become extremely efficient in this regard. However, the same efficiencies to the same extent can not be identified in the other two levels of government.

It has often been argued by Australians that Australia has too many levels of government. Whilst it maybe attractive to reduce a level of government within Australia, because of the size of the country and the associated multitude of issues at the Federal, State and local level, the solution is more about the public sector working together in partnerships, understanding roles and responsibilities and ensuring that the sector as a whole works together more effectively with the needs and aspirations of

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local communities. This is not to diminish the vital role played by the business and community sectors in their contribution to community life.

Another improvement would be the move to an output based accounting framework that clearly delineated between 'normal' operational expenditure and 'abnormal' items in operating statements and balance sheets. This would provide clarity regarding identifying long-term infrastructure issues compared to recurrent services issues.

**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.**

As previously articulated by many Victorian Councils, this *Review* did not address the primary issue of the amount of resources to the State. The Federal Government must further review its funding formulae and include resources to local governments in a broader context than this legislation. Again, constitutional recognition of local government is essential which must include increased access to growth funding.