



COMMONWEALTH OF AUSTRALIA

## Proof Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND  
PUBLIC ADMINISTRATION

**Reference: Local government and cost shifting**

WEDNESDAY, 4 SEPTEMBER 2002

CANBERRA

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**  
**Wednesday, 4 September 2002**

**Members:** Mr Hawker (*Chair*), Ms Burke (*Deputy Chair*), Mr Albanese, Ms Gambaro, Mr Griffin, Mr Peter King, Mr Latham, Mr Nairn, Mr Somlyay and Dr Southcott

**Members in attendance:** Mr Albanese, Ms Burke, Mr Hawker, Mr Peter King and Mr Nairn

**Terms of reference for the inquiry:**

To inquire into and report on:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

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 <http://www.cgc.gov.au/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.

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**Committee met at 9.10 a.m.**

**CHAIR**—I declare open this public hearing of the House of Representatives Economics, Finance and Public Administration Committee and welcome everyone here today. As you would be aware, the issue of local government and cost shifting is clearly of great interest to local government representatives and communities in all parts of Australia. We have already received well over 260 submissions to this inquiry and expect to receive quite a few more. In the inquiry we are looking at local government's roles and responsibilities, current and alternative funding arrangements and the scope for achieving a rationalisation of roles and responsibilities between the levels of government. We are interested in achieving better uses of resources and delivering better quality services to local communities.

This morning we will hear from representatives of the Department of Transport and Regional Services, the department which manages the federal government's local government responsibilities. We will also hear from the Commonwealth Grants Commission about its review of the operation of the Local Government (Financial Assistance) Act 1995. Later we will hear from local government representatives of the region, the National Farmers Federation and the Country Public Libraries Association of New South Wales.

[9.11 a.m.]

**EVANS, Ms Julia, Acting Director, Review of Non-Road Transport Industry Programs, Department of Transport and Regional Services**

**HRAST, Mr Andrew, Director, Roads to Recovery Program, Department of Transport and Regional Services**

**MRDAK, Mr Mike, First Assistant Secretary, Territories and Local Government Division, Department of Transport and Regional Services**

**PODLICH, Ms Diane, Assistant Director, Economic Policy, Territories and Local Government Division, Department of Transport and Regional Services**

**WATTS, Mr Geof, Director, Economic Policy, Territories and Local Government Division, Department of Transport and Regional Services**

**CHAIR**—I welcome representatives of the Department of Transport and Regional Services. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Would you like to make an opening statement before the committee proceeds to questions?

**Mr Mrdak**—The department welcomes the opportunity to make some comments in relation to its submission and to highlight some key issues that we see emerging from the submissions received by the committee to date. Our intention is to provide the committee with support, and we envisage that we will be providing further submissions and research to the committee, as it requests, as the inquiry progresses. There are some key points that we see coming out under the terms of reference to date. Firstly, the federal government has a significant direct interest in local government. In 2002-03, the federal government will provide an estimated \$1.4 billion to local government in direct financial assistance grants. Our department is responsible for administering the Local Government (Financial Assistance) Act 1995. Additionally, the department administers the Roads to Recovery program, which will provide \$1.2 billion to local government over a five-year period.

The department believes that local government is often best placed to deliver many services and respond to locally identified and regional issues, because it offers a wide and well-established national network of public administration and, in some cases, local government is the only institutional presence in small rural and remote areas; it has strong links to the community and is directly accountable to the communities it represents; its legislative basis makes it both durable and financially stable, unlike some community and interest groups; and it has a practical service orientation and good links with local business and industry.

There is clear evidence that local government's role has expanded and changed significantly over the past few decades. Local government is shifting its focus from hard infrastructure provision to a greater relative importance on spending on social services such as health, welfare,

safety and community amenities. We have moved beyond the point of debating whether local government can take on more functions and responsibilities to the point where we must now acknowledge that it is delivering a wide range of welfare and social services and has a greater regulatory role than its traditional 'roads, rates and rubbish' image. Given this, the question now is the capacity of local government to deliver. Its capacity to provide quality services has a direct bearing on most Australians' standard of living.

There have been significant changes to local government's funding mix since the Commonwealth first started providing direct funding in the 1970s. The share of revenue going from state governments to local government has declined. This, combined with the limitations many councils face in increasing their own source revenue through controls such as rate capping, has placed an increasing focus on revenue from the Commonwealth to support local government activities in many areas. This has been recognised by the Commonwealth in the development of the Roads to Recovery program whereby additional roads funds are paid directly by the Commonwealth to local government.

The department recognises that local government capacity is a complex issue involving a number of factors. In terms of local government's capacity to meet its existing obligations, a number of studies suggest its capacity to fund and manage essential infrastructure is an area of concern. The department recognises that defining and measuring cost shifting for this inquiry is difficult. One of the fundamental difficulties with defining and measuring cost shifting is that, in order to show that cost shifting is actually occurring, it is necessary to decide which government is responsible for providing the service in question. However, we believe that, in relation to local government services, cost shifting occurs when a state government fails to ensure there are sufficient funds or increased access to revenue to cover the imposition of functions and/or costs onto local government for which the state government is normally regarded as responsible. We have presented that as a working definition for the committee to consider.

The Commonwealth Grants Commission, which is also appearing before the committee today, noted that the financial pressures being faced by local government are not due to a single influence and therefore it is unlikely that a single response is appropriate. It noted that the diversity of councils further complicates the issue of cost shifting, particularly as not every council has the same capacity to raise revenue. Further, devolving functions to councils, which are already highly dependent on grants, can impose particular difficulties on that local government.

We consider the Commonwealth Grants Commission's suggested responses to cost shifting worthy of consideration. That is, where the source of the financial pressure on local government is as a result of a discretionary action by the council itself, it would appear to us to be appropriate for that to be funded by the council from its own revenue sources. However, where the source of the financial pressure is as a result of changing policies or actions from other spheres of government and these actions impose extra costs and functions on the local government, we consider greater financial assistance could be appropriate. Financial assistance could also be appropriate where those actions reduce the revenue capacity of local government—for example, through actions such as rate pegging, fee capping or the granting of rates and concessions, which is occurring in a number of states.

In addition, we would argue that there is scope to rationalise the roles and responsibilities between the three levels of government, but there will always be some complexity about defin-

ing roles. We would argue that a cooperative approach between all levels of government would enhance the prospect of a more successful outcome. We would suggest that states be encouraged by the committee to look at successful state and local government partnerships, such as those which have been implemented in Tasmania. We consider that there is scope for the Commonwealth to look at these agreements as a potential model for us and local government or Commonwealth, state and local government agreements together.

Local government must also consider how to make better use of its existing resources in order to provide better quality services to its communities. Reform, in some cases, can be achieved by local government alone, but in other areas the states and the Commonwealth also have to play a major role. Local government is already involved in developing opportunities through work at a regional level, both in terms of regional development generally, and planning and providing regional roads. The department is looking for greater involvement by local government in the Commonwealth's regional policies and programs. We would argue that any rationalisation of roles and responsibilities requires the involvement of all stakeholders and any new model needs the flexibility to adjust to a changing political environment and community needs.

I will finish by commenting on paragraph (6) of the terms of reference. This covers the findings of the Commonwealth Grants Commission. The government is yet to formally consider and respond to the Grants Commission's report. Stakeholders' response to this inquiry will inform the department in the development of a federal government response to the review. The department is of the view that implementing the findings of the commission would lead to improvements in the administration of the Local Government (Financial Assistance) Act. In our submission we have listed 26 proposed actions which we consider would address the findings of the Commonwealth Grants Commission. We acknowledge that the inquiry did not address the issue of intrastate distribution of funds and we are aware that that is an issue that has been raised before this committee.

In conclusion, we would say that it is clear that there are enormous pressures on local government and its roles and responsibilities have changed and increased. We consider that flexibility and reform are essential, as are adequate sources of revenue. We would welcome the opportunity to expand on any of the issues raised in our submission and also to undertake further work for the committee at its request.

**CHAIR**—In your submission you talk about changing community expectations of government and the increase in demands on local government. You talk about the effect of the changes. Do you want to comment on how well local government is performing as the vehicle to deliver all of these services within the constraints that you have already identified?

**Mr Mrdak**—Our assessment is that it varies depending on the capacity of the individual local government. It is quite clear that local government has expanded into areas which would not be seen as traditional local government areas, particularly in areas such as social welfare services, aged care, health services and the like. In those areas it very much depends on the capacity of that local government to perform, both at the elected level and at the staff level.

The fact that local government is providing those services of itself suggests that they are being successful, because the community is increasingly looking to them to provide more of those. How well that is being provided in terms of community satisfaction really does depend on how



well resourced they are, how capable the staff and elected representatives are. The best that I could say is that we do not have a general picture, but we would suggest that the fact that the community is looking more and more to local government to provide more services is an indication that they are delivering.

**CHAIR**—Do you feel that the fact that the community is looking to local government is a product of local government agreeing to respond because they see state and federal government not providing the service or is it because expectations are being raised and local government is the body that is immediately seen as the one to respond?

**Mr Mrdak**—I think it is a combination of both. In the first instance we would see that local government has stepped in to a number of areas because they are the most immediate contact with many communities. They are the first point of contact. For most Australians the services provided by local government have the most immediate impact on their lives; hence their requests for additional services first go to that level of government. But it is also the case that in many areas, particularly as state services have been withdrawn in a number of regional and rural areas, local government has stepped in to fill the gap that has been left. It may be a case of services moving to a larger regional centre, which leaves a smaller community not having the services it once had or not being able to attract the services that it sees in other communities. That is where local government has stepped in. Predominantly, we would suggest that it is a case of local government, because of its immediate contact with the community, being that first point of contact but also picking up the gap left by other levels of government.

**Ms BURKE**—Do you feel that some of those expectations are unreal, because of that closeness of the local government to the community, whereas with state and federal government you can actually stand back and say, ‘No, the taxation revenue is not going to provide that service’? In WA we received a lot of submissions from local councils which fundamentally said, ‘The community asked for it and we responded to it.’ Are councils trying to meet unreal expectations? Do we need to define in a sense what the actual role of local government is so that expectations do not keep escalating to a point where they are just not going to be met by anybody?

**Mr Mrdak**—I think that is important. It is much more difficult for local government to say ‘no’ to communities. They live in the communities—the elected council representatives live in the communities; the staff of the councils live in the communities. It is a much more direct relationship than state bureaucracies have; therefore it is much more difficult to say ‘no’. I agree with you that some delineation is needed of what services they can provide, because we are seeing local governments which are taking on additional functions where clearly it is beyond their means to do so. As we indicated in our submission, a larger and larger number of local governments across Australia are increasingly reliant on federal financial assistance grants and other state grants simply to meet their general functions, let alone take on new functions. That is clearly an unsustainable position. They do not have the revenue base to take on new functions, yet they are increasingly doing so.

**Ms BURKE**—Also in your submission you say that some of their traditional services are actually suffering, such as infrastructure services. Given the highway rule and hypothecation, and the actual impost on local government to bring their roads and bridges up to standard, will there be a crunch point when they will not be able to fund their base services any longer?

**Mr Mrdak**—For many councils, that is increasingly a prospect. We have cited a number of reports in our submission from South Australia, Victoria and WA which have indicated that there is a real lag, a real shortfall, in the amount of infrastructure investment and renewal.

But, by the same token, we are seeing continuing investment in new infrastructure in response to community demands; yet what we are also hearing on the other side is that not enough finance is being put into asset replacement and asset management—so we have that happening. Certainly the evidence that is appearing before us is that there is a decline in proper asset management in the taking on of new roles. Increasingly, that will hit a crunch point, and we are seeing a number of rural and regional councils who are making some very difficult choices about letting some assets run down in order to fund new services because of community expectations.

I suppose the image I would use is that, whereas once the face of local government for many rural and regional communities was the shire engineer, it is now increasingly likely to be the district nurse, the social worker or people providing those other types of services, the social welfare services, which are increasingly the face of local government. I think the evidence that is being brought before us and through submissions to the committee is that some of that is coming at the cost of proper asset management.

**Ms BURKE**—Whose responsibility therefore is it to regulate and monitor that? Reading through the submissions, it seemed to me that there is a glaring gap. Who is it that actually monitors and says, ‘Yes, you’re using the funds that the state and federal governments are giving you efficiently’? We saw that coming out of WA, even with the Roads to Recovery money—which was for roads but which was untied as to how you used it. Some councils thought other councils—and there is always a bit of ‘they said, I said and he said’ in these instances—were using those moneys inappropriately. So who monitors it? Who controls how those are being used, especially in respect of asset management issues, particularly going back to roads and the new highway rule?

**Mr Mrdak**—At the end of the day, this comes down to the debate as to whether local government is a creature of the states. Has it been created by states to perform certain functions which states believe they can best deliver at that level, or is it actually a legitimate third arm of government on its own and therefore has to stand on its own and take responsibility, instead of looking to a state government to have overall control over and responsibility for them? We would argue that increasingly we have to see them as a legitimate third level of government and they take responsibility for their own actions, albeit that they are established under state legislation. Hence we do not see a clear responsibility line in the way there once was. We would certainly not see that we can say that they are solely the responsibility of the states, and increasingly that has been recognised.

The Roads to Recovery program was a fundamental change for the Commonwealth in many ways. It provided direct funding for roads and tied roads money so that it has to be used on road projects—we can talk a bit more about that in detail if you like—which is different from the general purpose grants and the road funding provided under financial assistance grants which are untied. I suppose the Commonwealth has taken the view in untying that money that the responsibility for how that money is spent rests with those local governments as a legitimate form of government in their own right. The communities, at the end of the day, in electing their local

governments and in terms of the control that those local elected officials have over their staff and the like, make judgments about the adequacy of their performance. To us, that is a legitimate way to look at it.

**CHAIR**—But where do the states fit into what you have just said?

**Mr Mrdak**—The states clearly have a role. They have established local government under their legislation and have a role in terms of monitoring their accountability, performance and the like. The trend has been to try to devolve greater powers and give greater responsibility to local government, and obviously that has had mixed success across the country, depending on performance. But, at the end of the day, I suppose we would say that local government has to take responsibility itself in local communities for how they manage these areas of responsibility and not rely solely on the state to monitor and manage these things, because I do not think that necessarily leads to the best outcome for some communities.

**Mr NAIRN**—You have just come to revenue raising by local government. It seems to me that over the years their capacity to raise their own revenue has probably been restricted through a variety of pieces of state legislation. You might be able to comment on whether their capacity to increase revenue has been proportional to the growth in the economy, for instance. But, to me, one of the most inequitable things that local government seems to have to put up with in New South Wales—and maybe you can comment on whether it occurs anywhere else in Australia, which I am not familiar with—is rate pegging. There have been times in the last few years where the rate pegging has kept local government rates almost below the CPI increase. Could you comment on that aspect first of all?

**Mr Mrdak**—Certainly, as we have outlined in our submission, the capacity of local government to source their own revenue is a relatively small component of their overall budgets compared to other areas for some councils. But their own revenue source has remained relatively stable in terms of the overall mix. Geof might care to comment on this.

**Mr Watts**—The Commonwealth Grants Commission found when they did their review, looking at local government revenue in real terms—that is, taking out the effects of inflation—that over the last 25 years local government revenue has at least doubled. That is quite a significant increase in their sources of revenue. During that period their reliance on rates has declined, but their reliance on user charges has increased. So there has been a change in the mix of revenue sources. They have still managed to double their revenue over that 25 years in real terms.

**Mr NAIRN**—The restrictions they had on rates have been transferred across to other charges?

**Mr Watts**—That appears to be the situation.

**Mr NAIRN**—What states have rate pegging?

**Mr Watts**—New South Wales is the only state that has rate pegging. I understand that Victoria has some arrangement where the minister can restrict rate rises in that state. I think it is on a council-by-council basis.

**Mr NAIRN**—What about things like environmental levies, which are becoming popular things for local government to try and introduce? Do they occur in various states or do state governments regulate any such levies?

**Mr Watts**—I am not very aware of the details for each state. I know that this range of levies that councils have introduced to help with their revenue is part of these user charges. I cannot comment on a state-by-state basis.

**Mr Mrdak**—Certainly, our understanding from the submissions the committee has received is that under a number of pieces of state environmental and planning legislation there are caps on the charges that can be charged by local government for performance of regulatory functions which, again, may not reflect the costs of that local government in providing that service and the like. Coming back to your point about rate pegging, as I said earlier, we would certainly argue that that is inconsistent with local government being a responsible level of government in its own right, which is both responsive and responsible to its own communities, because that denies those councils the opportunity to respond to their communities' requests for additional services in many cases by being able to source that revenue. There are councils in Australia that could raise a great deal more through rate revenue or own-source revenue but they have been denied the opportunity to do so. That would seem inconsistent to us with the function of local government as a responsible government.

**Mr NAIRN**—Related to that, what about the effect of land becoming unrateable? I can comment on the area that I represent where significant amounts of land over the last few years have been put into national parks, and some of that was originally rateable land. What effect is that having on local government and are states dealing with that differently? Are any states providing any sort of compensation to local government for taking away that rateable land?

**Mr Mrdak**—I am not aware of any compensation. We can take that on notice and come back to you after doing some work on that. We are not aware that compensation has been provided in those situations to local government.

**Mr Watts**—When the state grants commissions allocate the financial assistance grants they take into account the capacity of the council to raise revenue. If that has been reduced because certain parcels of land are no longer rateable then that allows that council to get increased financial assistance grants by that mechanism, so there is a way in which that issue could be addressed.

**Mr Mrdak**—That is Commonwealth financial assistance. Those sorts of issues, as we have highlighted, are major contributors to the share of Commonwealth funding becoming a much greater proportion of their total revenue base.

**Mr NAIRN**—That is the point, isn't it, that it is falling back on the Commonwealth to make adjustments in that sense, whereas probably in 99.99 per cent of the cases state government decisions are taking that rateable land away.

**Mr Mrdak**—Certainly we see that occurring with the shares of revenue. As to what the individual circumstances are, we would not have a great deal of information. We can certainly look at those. I would certainly agree that the evidence that has been put to us over some years is that

that is the case: the local councils are finding that the Commonwealth financial assistance grants are increasingly filling the gap in their revenue base. That is particularly so for a number of rural and regional councils.

**CHAIR**—But have you monitored whether, if a state government makes that decision, a council is compensated in any way by the state for that loss of rate revenue?

**Mr Mrdak**—We do not do so directly. As Mr Watts indicated, given the way in which the Commonwealth assistance grants are allocated through state grants commissions, they would have that detail. We do not, but we can certainly take that on notice for the committee to see where we can get examples of where that might have occurred.

**CHAIR**—That is important, because we are trying to establish this in principle: if a state government is making, probably for very worthwhile reasons, a decision that is adversely affecting the revenue base of local government, is there any compensation being given to local government by the state that has made that decision?

**Mr Mrdak**—We are not aware of it but we will take that on notice.

**Ms BURKE**—Are we having a chicken and the egg argument though because the Commonwealth have not responded to the Commonwealth Grants Commission review? Are we having a circular argument, because the government went into the election saying that they were going to respond to that—it was one of their election promises—and we have not had any response? We have not had a meeting of the state government ministers responsible for local government, nor is one planned. Are we having difficulty because we are in a bind that the government has not responded to the commission's report, so that part of the problem is about Commonwealth funding meeting—as some at this table would argue but I will not—the shortfall of state governments? Would you answer that from your perspective? I do not want to put you on the spot politically. Is not being able to progress this because they have not responded to that review putting you at odds?

**Mr Mrdak**—No. The government's commitment was to consult with local government and states in relation to the findings of the commission. The minister has asked that that be done through this committee's process. The findings of the Commonwealth Grants Commission really go to the mechanics of the operation of the federal act rather than to anything to do with the quantum of or the interstate distribution of that money. So I do not think that is really germane to this argument, which is in relation to how local government is being funded, because it really looks at some administrative mechanisms, some reporting mechanisms and also how to improve the transparency of state grants commissions; it does not really go to the issues we have been discussing thus far this morning.

**Ms BURKE**—But does it not go as well to minimum payments and how that money is carved up between those councils and then their rateable ability—so their actual financial ability to survive?

**Mr Mrdak**—The Commonwealth Grants Commission had a look at the minimum grants issue and did not recommend any change to that arrangement. Certainly there are issues with a minimum grant which we have flagged in our submission and which the committee may wish to

consider. It is certainly the case that having the minimum grant provision is at odds with the horizontal equalisation principles in the act, but the question is: is that to the detriment of councils? Could that money be better allocated from some councils who are relatively less needy to those who are more needy—and we think there is some scope to examine that. But that was not something that the commission actually made a recommendation on, which is why we have flagged it with the committee as something that you may wish to discuss in your deliberations.

**Ms BURKE**—In looking at minimum grants and at needy versus not needy councils, one of the things has to go to economies of scale. I am staggered by the different sizes and proportions of councils. I represent metropolitan Melbourne, and in my electorate I have Monash council and Whitehorse council, Monash being one of the biggest councils in the country. Compare that with the situation we met in WA, Peppermint Grove being the smallest council in the country. In your submission you go into economies of scale. There has to be some argument about what is a sustainable base for a local government. I suppose it goes back to a state argument and who is prepared to take it on. Victoria did; the lot that I am not associated with got it through.

**CHAIR**—I think it was called bipartisan support.

**Ms BURKE**—There are issues about economies of scale and the need to address those issues. Even when we are looking at this we are not comparing apples with apples; we are talking about different sizes and different services. It is really hard to peg it all down.

**Mr Mrdak**—There is no doubt—as you have indicated—that there has been a process for many years of amalgamation and rationalisation of local government. We now deal with 732 local government bodies. That has come down from 840 or 850 a decade ago. That has occurred and in some cases it has been more successful than in others. The evidence has been that forcing amalgamations does not necessarily lead to a rational outcome. It has to be driven by an agenda for change and a strategy in terms of where you want to take the community. There are certainly benefits in economies of scale for some areas. By the same token, for many rural and regional areas those benefits would not occur because amalgamation would result in local government areas which are so vast that the communities would not have the same contact and representation, and the ability to deliver services would be much more difficult.

So you may be better off having a number of smaller councils—albeit the cost of provision may be higher—because they can deliver the services much better than a large council based in a large regional centre. It really depends on what the community's needs are, where strategically the region is going and how best the community is served. Amalgamations have certainly had a patchy period. Victoria went through a process some years ago of forcing amalgamations. Other states, such as South Australia, have used a more cooperative model, which seems to have resulted in a better process because it was driven by a more strategic and cooperative approach than forced amalgamation.

**CHAIR**—I come back to a fundamental point. It has been stated—and I think you have stated this yourself—that state assistance to local government has decreased at the same time as Commonwealth financial assistance grants have increased. The question is: if the Commonwealth continues to increase financial assistance grants would that not exacerbate the problem of cost shifting? In other words, the states know that the Commonwealth is going to come in with more; therefore they can pull back. Is that just a coincidence or is it reality?

**Mr Mrdak**—The act is predicated on an escalation. So an increase in Commonwealth funding will occur based on population. As to whether the states see that as an opportunity to withdraw, I do not know. Certainly that is the evidence to date: the proportion of their funding has declined. Whether that has occurred because they have made policy judgments or it is a deliberate strategy to leverage Commonwealth involvement, I will not make a judgment. Is there any evidence about that, Geof?

**Mr Watts**—I point out that one of the terms of reference of the Commonwealth Grants Commission review was to examine the support of local government by state government. I believe that was an attempt to measure whether there had been a decline in support from the state government as the Commonwealth came in with additional funding.

**CHAIR**—Clearly there has been. It is not something new; it has been going on for quite a while. Does it take an inquiry like the one we are now conducting to bring a focus on this? Why has it not been addressed before?

**Mr Mrdak**—I think it does take an inquiry such as this to get the breadth of it. It has been put to the Commonwealth many times in the past that this is occurring but I suppose only a process like this allows local governments actually to put on the table what services they are now providing, give us a comprehensive picture of how much is being funded by the states and indicate where local governments have stepped into areas from which states have withdrawn. That enables us to get a better picture of it.

As Mr Watts has indicated, the Commonwealth Grants Commission had a look at it but found it was very difficult to establish whether this was a deliberate policy or local governments were stepping into areas because of community demand and the like. We have not really had a clear picture from local governments of their view. The value of this committee now is that it is doing that.

**Ms BURKE**—I would like to follow up on that. This is a loaded question as well. Has local government also fallen into the breach to pick up Commonwealth government responsibilities? Particularly, in my neck of the woods, I would cite aged care. Are rural communities picking up where the private sector has stepped out of the breach—banking being the most cited example? It cannot just be states stepping back; it has to be partly the Commonwealth stepping back and, particularly in regional and remote areas, the private sector stepping back.

**Mr Mrdak**—Local government has not expressed to us that concern about the Commonwealth to the same degree as the states. If we had, I think we would know a lot more about it directly. We have not had that concern. I think the concerns that we have had over many years—and which are coming through in the submissions to the committee as well—are very much focused on the states' withdrawal of services, because that is more where local government has stepped into those sorts of service delivery areas. As to whether it reflects on the Commonwealth, we do not get that sense but that may be something that comes through submissions to the committee.

In relation to stepping into areas where the private sector may have been, there is no doubt local government has done that, and, through our portfolio—through areas such as rural transaction centres and the like—has provided services that would have once been provided by banks

and the like. We have attempted to address that with local government. As advocates for their communities, they have been very strong in that process of RTCs and the like.

**CHAIR**—In your submission you point out that, since 1974-75, the state assistance rate of increase is 0.4 per cent per annum in real terms, which is one-tenth the rate of the increase in local government own source revenue. Its decline in importance—that is, the state assistance—is almost exactly matched by the increase in the importance of Commonwealth transfers. You have made that point in your submission. I suppose the question is: do you think state governments in the last 25 years have effectively—to put it bluntly—systematically and cynically exploited the federal government's funding as a way to walk away from some of their responsibilities?

**Mr Mrdak**—I probably could not put it in language as direct as that.

**CHAIR**—You would not use those words, but you could comment further.

**Mr Mrdak**—On the evidence of the splits of revenue, it certainly appears to us to be the case.

**Mr NAIRN**—Coming back to the issue of revenue restriction, you comment on the non-payment of rates to councils by state commercial enterprises. Can you give examples of some state commercial enterprises that do not pay rates?

**Mr Mrdak**—We will come back to you with some details on that.

**Mr NAIRN**—While you are thinking about that, what is the situation with federal government enterprises? I can still use the example of Telstra; it is still 50.1 per cent federal government owned. I understand it pays rates, doesn't it?

**Mr Mrdak**—The Commonwealth has had a policy for many years for government business enterprises to make an equivalent payment for rates and the like. Certainly, for many years, when business enterprises such as airports and others were in government control, they did pay rates and the like as an equivalent payment.

**Mr NAIRN**—So federal government business enterprises pay rates but there are some, if not a number, of state enterprises that do not. It would be nice to know some examples and whether it is prevalent in one state as opposed to another state—or whether it is across the board.

**Mr Mrdak**—The move over the last few years towards treating government businesses, through the national competition process, in a manner as far as possible akin to private businesses has addressed some of that. We will certainly come back to you with some advice in relation to where gaps still remain.

**Mr NAIRN**—If some state enterprises are not paying rates, I think you might actually find that, under national competition policy, those same state enterprises are probably accounting for those sorts of costs within their own accounting systems to supposedly prove that they are competing appropriately—and that is taken into account as far as the state government's operation is concerned—but they do not pay actually rates. It would be nice to have some examples of that.



**Mr Mrdak**—We will do that. Certainly the evidence put to us today that we have been looking at is that instrumentalities like power authorities, state forests and the like still remain outside that rateable base, but we will come back to you with some advice on that.

**CHAIR**—On my earlier point, with the Commonwealth increasing assessments and, in relative terms, the states' declining support, what would be the effect on Commonwealth-state relations if direct service delivery arrangements between Commonwealth and local government were to be instituted? Rather than have this drift we could say, 'This is the way that it ought to be done,' if states are reducing their support in relative terms.

**Mr Mrdak**—The first step that needs to occur is a clear decision that it is a service that should be provided by local government and that the Commonwealth will fund that to a certain degree. One of the clear decisions that is going down that track is Roads to Recovery—the introduction of that Commonwealth program of direct support. At the moment, the way in which financial assistance grants are paid is through state governments. We make a payment and, because of the allocations, intrastate allocation is done through state local grants commissions. If that process were to be done directly and the Commonwealth were to pay our financial assistance grants directly, as we do with the Roads to Recovery program, we would have to establish a mechanism at the Commonwealth level to make those allocations. That would bring with it some cost but it would certainly create a direct relationship that we do not have at the moment. The states pass on those grants in full to local government under their state grants commissions, so it would simply be a case of the Commonwealth creating a mechanism which would enable us to make judgments about the level of payment to each local government and then doing that.

**CHAIR**—You are saying that you would continue through the grants commissions or you would go down the Roads to Recovery path of identifying specific programs?

**Mr Mrdak**—That is right.

**CHAIR**—Which one are you saying would be the desirable way?

**Mr Mrdak**—The threshold decision is whether the Commonwealth would want to tie the financial assistance grants. At the moment, as you know, the \$1.4 billion is untied. There are two components to it, general purpose grants and the roads component, but essentially they are untied at the moment. The question would be whether the Commonwealth wanted to continue to untie that and treat that as a payment to local government essentially as its share of Commonwealth taxation revenue, or whether it would want to specifically identify services that it wants delivered by local government for that \$1.4 billion and then, as we have done with Roads to Recovery, directly fund that to local government. There is a threshold decision there as to whether the Commonwealth sees the financial assistance grants it provides as simply a transfer of tax revenue, or revenue raised by the Commonwealth, to another arm of government, or whether it sees it as a mechanism for delivering Commonwealth outcomes by local government as the best placed service provider. It is that threshold decision which then influences what mechanism you use—whether you have a grants commission type process or whether you tie it to specific outcomes.

**CHAIR**—Does the department have a view on this?

**Mr Watts**—With tying, one of the issues that would have to be considered is that the impact would fall heavily on rural and regional councils because they receive a large proportion of their revenue from these local government FAGs. Any impact of tying would have the biggest impact on councils in rural and regional Australia.

**CHAIR**—Surely the impact would depend on the program if they are able to provide better services because of this. It could be a positive impact then.

**Mr Mrdak**—It could. The issue is that they use that money to provide the whole breadth of their services ranging from infrastructure through to social services and everything else that they provide. We would have to identify which of those services we felt the Commonwealth should legitimately fund directly. We may reach a view that we would not want to see some of that funded with Commonwealth funds. That has implications, as Mr Watts has indicated, particularly for rural and regional councils where the Commonwealth grant essentially often makes up well over half of their total revenue. What would those communities cease to do if the Commonwealth grant were tied to specific purposes?

**CHAIR**—Take it another way: you say that you still have the assistance grants but then the specific purpose grants, like the Roads to Recovery, are extended into other areas where local government is now taking up additional responsibilities and not always being fully funded for it.

**Mr Mrdak**—We would see that as having many benefits. Roads to Recovery has proved to be enormously popular with local government.

**CHAIR**—We all agree on that, but what other areas?

**Ms BURKE**—Except for metropolitan areas where the funding formula has changed and we have had a decrease in funding. I do not think you can say that people are universally enthused by it.

**CHAIR**—We have dissent here!

**Mr NAIRN**—But it is fair!

**Ms BURKE**—It was fair when you got a lump sum, and then they changed how much money you were going to get. That is one of the problems. The Commonwealth said, 'Here's the money,' and then midway through said, 'Oh, but the formula has now changed so you are not getting as much.'

**CHAIR**—No, it has been delayed.

**Ms BURKE**—Oh well, it has been delayed. There have also been changes to the amounts.

**CHAIR**—Let us go back to the question.

**Mr Mrdak**—Certainly there are other areas where the Commonwealth has a direct role and has generally funded, either through states or directly, aged care and health services and the like.

There may well be a benefit where the local government is providing that service to have that Commonwealth funding made directly available to the local government under a direct agreement. We certainly think that there are those sorts of avenues where the Commonwealth has a clearly marked role. We see that local government is the best delivery mechanism for those services. Aged care and child care may well be areas where local government and the Commonwealth government get some benefit from a direct relationship.

**CHAIR**—Your answer is yes.

**Mr Mrdak**—Yes, in a very bureaucratic way.

**Ms BURKE**—Isn't that already happening by virtue of local governments putting up their hands for those funds in competition with other people? Aged care HAC places are one of the most common examples.

**Mr Mrdak**—It is. If you used a mechanism like the financial assistance grants you would effectively have an ongoing program—you would not be putting your hand up for specific projects. You would have an ongoing program which has some certainty to it, which does not happen with perhaps some others. It is a transfer mechanism which has some—

**Ms BURKE**—You would have to have some controlling mechanisms to ensure that the money actually went on the specific projects, that it was not just handed over with, 'Here's your FAG; use it for whatever you want.'

**Mr Mrdak**—That is right.

**Ms BURKE**—You said at the outset that they are using it for shortfalls for things and not spending it on the designated areas. There would have to be tighter controls than there currently are.

**Mr Mrdak**—There would be, and that comes back to my point that we would have to define what the Commonwealth would want to be provided in those areas. We would have to have performance standards set up to ensure that the money was being spent on those areas. At the moment the Commonwealth financial assistance grants are used across a range of services that the local government provides. We do not then go back and say, 'What did you use financial assistance grants for this year?' We do not do that; at the moment we simply treat it as a direct revenue transfer.

**Ms BURKE**—Isn't there a problem also in that it is funded every 12 months. Councils, particularly in metropolitan areas, have said, 'It's annual. We try to budget further out—four or five years—for planning but we are getting an annual allocation so we spend our lives chasing our tails.' Aren't there problems with funding arrangements on such a short-term basis?

**Mr Mrdak**—I am not sure that that has been raised with us as an issue. With respect to the benefit of the financial assistance grants and the way the legislation currently is, at least it gives them a certainty of knowledge that they will have their base—what they had the previous year—and some escalation factor, which is based on population and the like. Essentially it gives them some certainty which is not available under other legislation which has a clear sunset or a

clearly defined budget. They have a certain base that they know will be growing into the future. The issue of that being provided annually has not really been raised with us. They are happy to know that they will at least get what they got last year and some more, depending on the allocations done by the state grants commissions and the allocation method they use. At least they know that the Commonwealth base amount is always there.

**CHAIR**—A report from the transport committee under Peter Morris, of which I was a member, looked at the advantages of predictable funding for roads. It suggested that savings of up to 20 per cent were achievable if there was long-term predictability on road funding.

**Mr NAIRN**—I would like to clarify an aspect of the FAGs. There is the general amount and the roads amount. Within the FAGs, the roads amount is not dealt with in the same way as the Roads to Recovery money. It is totally untied. While it is targeted as ‘roads’ it is actually quite possible for that money to be spent elsewhere.

**Mr Mrdak**—That is right.

**Mr NAIRN**—Is it generally accepted that it is rare for all of that to be spent on roads? Or is it all spent on roads and other money is added to it?

**Mr Mrdak**—The evidence has been that councils are spending well beyond that on roads. Mr Hrast, from our roads area, might wish to comment further.

**CHAIR**—Welcome. You are aware of the conditions of your comments?

**Mr Hrast**—Yes. Certainly all Roads to Recovery funding has to be spend on roads and there is every indication that councils are spending far more on roads—not only the Roads to Recovery funding but also their FAGs that are identified for roads.

**CHAIR**—With respect to looking to extend the Roads to Recovery type funding, specific purpose funding, from the Commonwealth, surely there is discretion on the part of the Commonwealth to be able to vary this, to take up the point that Ms Burke was making earlier. For example, the Commonwealth gives funding to non-government schools but it then has discretion in regard to disadvantaged programs so that it is not automatically distributed according to one particular formula; it can be varied. Wouldn’t that be the case if the Commonwealth were to give specific funding to local government for other areas?

**Mr Hrast**—It certainly could set up a program along those lines. That is not how Roads to Recovery works; it is a—

**CHAIR**—No, I was talking about the case of the Commonwealth funding another area and saying that it could be applied here to local government.

**Mr Hrast**—It certainly could, yes.

**Mr Mrdak**—It certainly can. That is one of the issues that we flagged—the fact that we have a horizontal equalisation process in the FAGs act. The fact that that also sits with a minimum

grant provision means that the total allocation is not necessarily distributed on the basis of needs alone. That is an issue that we need to address, and it comes back to this fundamental question that the committee may wish to consider: is the Commonwealth assistance simply a share of Commonwealth revenue to local government or is it actually trying to get dedicated outcomes to areas of high need? As we have indicated in our submission, a number of councils receiving the minimum grant clearly have the capacity to grow their own revenue sources, whereas there are other councils which are much more disadvantaged and have greater needs. If you applied the funding models that are being used in education, they would qualify, based on income and the like, on the basis of the characteristics of those areas. They would benefit from a redistribution of the FAGs on a needs basis.

**Mr KING**—I want to ask you a couple of questions about comments you made during your opening statement. You stated:

... we believe cost shifting occurs when a State Government fails to ensure there are sufficient funds or increased access to revenue ...

Can you give me some examples?

**Mr Mrdak**—There are a number of areas which have been cited in evidence to the committee.

**Mr KING**—At what page?

**Mr Mrdak**—At page 44 of our submission we have listed some areas where submissions made to the Commonwealth Grants Commission—

**Mr KING**—Are you talking about page 44 of our papers or page 44 of your submission?

**Mr Mrdak**—Our submission. We have listed there some examples which were drawn to the attention of the Commonwealth Grants Commission and the department during the review of the financial assistance grants act as areas where state governments have made decisions in relation to the service provision or the non-provision of services or legislative changes which have passed costs on to local government. They have ranged across both the service provision role and the regulatory role of local government. I think that has been reinforced and expanded on by a number of the submissions received by this committee. You will see that that ranges from areas which have an impact on their ability to raise revenue right through to additional responsibilities such as regulating activities.

**Mr KING**—If you take the example of the acquisition of land for national parks and state forests, that is really an opportunity cost, isn't it? What you are talking about there is the loss of potential rates from commercial or other activities on the land.

**Mr Hrast**—It may also involve additional costs for local government in terms of having to provide service roads, infrastructure and the like which are not recoverable, because of the community's expectation of being able to access the national park. So there may be increased costs for local government. If, in order to access the national park, an all-weather road is re-

quired which was not there previously, because of community expectations that they will be able to access that area, that is a cost to local government.

**Mr KING**—I see; both indirect and direct costs?

**Mr Mrdak**—That is right.

**Mr KING**—In relation to, say, neighbour links programs, what is your experience of state governments requiring local governments to actually administer the delivery of what might be called generally family and community services—is that increasing more or what is happening?

**Mr Mrdak**—Our understanding is that it is increasing not only through legislative requirements but also as community expectations have grown about service provision and as that has not been provided by state agencies or other agencies then increasingly local governments are taking it on through conscious decisions.

**Mr KING**—It is happening in two ways. It is happening by imposition—that is, through legislative or administrative direction of the states—or it is happening by voluntary take-up.

**Mr Mrdak**—That is right. Councils are making conscious decisions to provide services for their communities.

**Mr KING**—You have made the point elsewhere in your report that if it is voluntary take-up then it is the responsibility of the council to act appropriately to ensure that they do not take on any function that they cannot afford to take on.

**Mr Mrdak**—That is right. We would argue that where they have made a conscious decision to provide a service they should seek to fund that from their own source of revenue. But as Mr Nairn indicated earlier, often councils feel constrained in their ability to grow revenue through constraints on rate capacity and the like. There are those sorts of issues that impinge on that but certainly we would argue that as a responsible level of government, where they have taken a decision to provide a service themselves which is not otherwise provided by other levels of government, then they should be funding that.

**Mr KING**—Are you finding states that are administering disability support schemes are requiring local governments to effectively administer them?

**Mr Mrdak**—I am sorry; I do not have any knowledge of that. We can take that on notice.

**Mr KING**—The other issue I wanted to raise with you concerns something you said at page 3 of your opening statement today:

There is scope for the Commonwealth to look at these agreements as a potential model ...

I think you were referring to something that happened in Tasmania, which worries me a bit. But anyway, could you explain that a little bit further?

**Mr Mrdak**—The model that has been adopted by Tasmania and has been looked at in Western Australia as well is one whereby the state government has an agreed MOU which delineates what local government services will be provided and then an agreement about how that will be funded. It actually goes to this issue of trying to clarify who will do what a little bit more. We see that there is some real benefit in that because what we have at the moment is all three levels of government often intersecting. Sometimes that is necessary and at other times it is not and that is all we are suggesting. I do not think any one level of government can walk away. It really needs to be done between all three.

**Mr KING**—You see some merit in the MOU approach. I have to say I agree with you about that because it would clarify and make more transparent what is actually happening. So often even those involved in local government do not appreciate either the source of the funding or the nature of the responsibilities that they have and to whom, whether it is state or federal governments, in respect of the delivery of various programs. So I can see some merit in that respect.

**Mr Mrdak**—If only to clarify the sort of issue that if there is a service provision which is normally one level of government's responsibility and they withdraw from or change that, there should be some mechanism by which the level of government, be it local government who picks that up, then receives some financial assistance if they are going to step into that breach. If you had some cost-sharing principles like that as well as a partnership or MOU type arrangement then I think you would, at least, get that transparency and that understanding on the table.

**Mr KING**—I should disclose a certain interest here as I am a former mayor. I am a bit surprised that local governments, either through their association or directly as councils, are not protesting at this imposition and irresponsible requirement in relation to the additional obligations that they have. I appreciate that they are carrying on about rate capping and so on but this is a more complicated and more important, or so it seems to me, issue for the longer term. Are you aware that local governments have been addressing these issues before now?

**Mr Mrdak**—They have been raising them. This committee's inquiry is certainly seen as an opportunity by many councils for them to get a proper exploration of those issues for the first time, which is why this committee's inquiry has been welcomed in the large number of submissions you have received. As you said, this has been a little bit unclear. In many councils this is occurring in some sense, but they have never really had an opportunity to put some of that on the table and get a proper examination of it to try to get a better understanding and quantification of it.

**CHAIR**—I would like to follow up that point from Mr King. You talked about local government taking on these additional responsibilities, and you gave some examples of cost shifting in your submission, but isn't it the case that the reason local government takes on a lot of these additional responsibilities is that (1) there is an expectation or pressure there to do it but also (2) often the state starts the funding and then leaves local government to carry the can after two or three years? Isn't that really why they are left with that problem?

**Mr Mrdak**—That is right. The evidence that has been put to the Grants Commission—and which continues to be put to the commission—and also to the committee is that that has been the case. A number of programs have been put in place and then the expectation by states is that they will be continued on by local government; the programs have proved to be something the

community want and they wish to have them continued, particularly in some communities, and then the programs are no longer funded, the funding changes or other changes are made. But the great difficulty for local government is that, as Ms Burke indicated earlier, being as close to the community as they are, it is very difficult to say no, much more difficult than it is for us at the state and federal level to argue on the basis of simple budget processes.

**CHAIR**—Do you have a ballpark figure of what this might be costing as a percentage of increased cost to local government? I am not speaking about a precise figure but just a ballpark figure.

**Mr Mrdak**—No. I do not know that we can even begin to estimate, but we might have a look at that if we can.

**Ms BURKE**—If you look at the submission by the City of Newcastle, the city has done a bit of an audit about cost shifting and what it comes down to. I might dispute the figures or whatever, but it is an interesting exercise. We have anecdotes and you have what you are saying, but nobody has actually audited it. Is that possible to do, or is it too pie in the sky? If it were possible, who do you think could actually do it? We have submissions coming in, and we have probably heading up to 300 submissions which will cite individual things, so we can probably track it fairly well from those submissions. But, if we actually wanted to get at the nub of it and say, ‘This is the cost and these are the projects’—and I would also add that my municipalities tell me that they are picking up 30 per cent additional costs in aged care and that the Commonwealth has stepped out of the breach—is that too difficult or too costly to do?

**Mr Mrdak**—I think it would be very difficult to do it globally. We could certainly look at specific examples of councils who form certain categories, where they may be able to demonstrate it, and get a representation. We can have a look at the submissions to date and, with the Grants Commission, perhaps see what we can do on that to at least give a representation of certain types of costs that councils may be incurring.

**CHAIR**—I think that would be very valuable and we might follow that up again tomorrow with ALGA. Getting back to this question of cost shifting, has the Commonwealth addressed it with the state governments and has there been any response? It is not as though it is something that has just happened. Have there been discussions in the past, and what has been the outcome?

**Mr Mrdak**—I think it has been one of those things which has been raised and discussed but, because it has been one of those areas which has lacked a lot of quantification, as you have indicated, it has never really been addressed as a key issue. It has been argued between various levels of government, but it had never really been addressed until this process to try to do that. Geof, is that the case?

**Mr Watts**—That it is what I think the case is. Until the Commonwealth Grants Commission came forward with their report, I think there was a lot of anecdotal information about that occurring, but at least at this stage the Commonwealth Grants Commission has been able to demonstrate with ABS data that there had been a reduction in state funding and those things had been occurring.

**CHAIR**—I look forward to the response when you do a bit more work on it.



**Mr Hrast**—When the Roads to Recovery program was set up, the Prime Minister wrote to all the state premiers, asking that they maintain their roads expenditure and not see this as an opportunity for the Commonwealth to offset state expenditure.

**CHAIR**—Is that being honoured?

**Mr Hrast**—The indications are that it is. That does not necessarily mean that the funds are being spent in exactly the same way as they were before. They might be being shifted.

**Mr NAIRN**—It would be interesting to see some monitoring of that. Presumably the department will be doing some sort of audit on the Roads to Recovery program and the effect that that money has had on other funding, because some time in the last six months—around budget time in New South Wales—I read that there were some concerns about the New South Wales government's road funding. It was suggested that they were doing that because the Roads to Recovery program had come in. Whether the article had specific information or whether it was speculation or political argy-bargy at budget time, I do not know. I guess the proof will be in the pudding a year or two down the track.

**Mr Hrast**—That is correct. The program has only been operating for 18 months.

**Mr NAIRN**—Regarding local government's role in regional development, there is no question that local government has had a fairly prominent role in a number of the federal government programs related to regional development over the last few years, with Networking the Nation, the Natural Heritage Trust and those sorts of things. Is any work being done on how well Commonwealth money is being leveraged by local government in those circumstances?

**Mr Mrdak**—I am not aware of any.

**Mr NAIRN**—Isn't there even anecdotal evidence? One of the concerns I always have is that, federally, we have some sort of program which is designed to provide some economic stimulus in a regional area, and local governments are very quick to put up their hands and say, 'We can get involved in this, and we can do that. How much money are you going to give us?' But a lot of our regional development strategy is about leveraging Commonwealth money either through the private sector or through the state et cetera. The money that is put in is not just spent and that is it; it actually gets leveraged up. There are things like the Dairy Regional Assistance Program and the specific program that I had in my electorate—the Eden Region Adjustment Package—that leveraged quite substantial amounts of money. Those two have probably been two of the most successful programs that I have seen as far as job creation and economic development go. Regarding the various things that local government have been able to get involved in to get Commonwealth money, how well have local government taken that money and leveraged it?

**Mr Mrdak**—You are right. Local government has been a big participant in those development programs. A recent review of the regional programs indicated that local government receives about 33 per cent of the project funding of our department's programs alone. Obviously, as you have said, in a number of those programs leveraging is a key criterion that is looked at in terms of what it opens up. I will take that on notice and come back to you after talking to our regional people and getting some quantification of how successful leveraging has been.

**Mr Hrast**—In the Roads to Recovery area there certainly have been a number of instances where, because of the Roads to Recovery funding, local governments have been able to obtain some state funding to complete road projects. We can certainly provide examples of those.

**Mr NAIRN**—While we are talking about roads and, by extension, regional development, you talk about some of the local road planning strategies in some states. You are probably aware of the South East Australia transport strategy committee, which brings together a whole series of local governments in the south-east corner of New South Wales and in Victoria and which has been looking at a whole series of transport issues and trying to set priorities for the region across Commonwealth, state and local governments. Do you have any comment about that sort of model for future road and transport issues, as opposed to some of the things that have been commented on such as the South Australian and Western Australian local road planning strategies?

**Mr Hrast**—The government has announced the AusLINK program as its new direction for land transport funding. It has indicated a desire for local governments to work together on a regional basis. More details of that will come out with the green paper, which is due out in late October or early November.

**Mr NAIRN**—So what you are saying is that perhaps the sort of model that SEATS has worked under is—

**Mr Hrast**—That could well be an approach. There is already, under the Roads to Recovery program, a stated preference for councils to work together to deliver regional outcomes but there is no obligation on them to do that. There may well be if there is to be a future Roads to Recovery program—an evolution of the program.

**Mr Mrdak**—Certainly, as Mr Hrast indicated, the AusLINK proposal which the Deputy Prime Minister has announced is designed to try to get much more strategic linkages and thinking into transport—thinking not just limited to roads. So the model you have described, the one which is operating in the south-east, is the sort of model that may well be picked up. One of the directions the Deputy Prime Minister is looking concerns how he gets regional bodies and local government thinking regionally and taking a much more strategic approach. AusLINK is designed to provide an infrastructure funding mechanism which enables them to do that.

**Mr KING**—I would like to pick up the point that Mr Nairn has just raised, which is a very good one. We thank you for your model, which is obviously going to be very important in the overall thinking of this committee in its consideration of what we recommend. As to another possible model, take an area of the state such as, for example, the north-west slopes of New South Wales, which would take in the electorate of New England and most of the electorate of Gwydir. We are talking about a geographical area and a distinct delivery service area; I think parts of it may be called Orana under the old regional administrative programs. What would be wrong with a model in which you have particular districts or local government areas putting in bids to a DOTARS administered area committee? Also on that committee would be community representatives. On that committee you might have, for example—and let us assume this one might be administered from Tamworth—your DOTARS Canberra representative, someone from the local area, someone from the community who has nothing to do with local government and someone from state government.

I am thinking of a possible model for a committee that would then consider applications for assistance. For example, people in my home town of Bingara, which is in that area, want to fix up local problems concerning the administration of some of their public buildings. Among them is the local cinema, which is now a valuable heritage item and an important tourist resource. The area committee would consider that and then perhaps make a recommendation to DOTARS in Canberra, and in due course that would be considered as part of a national program. Then the local program would be administered through local government but with DOTARS having a specific responsibility for the administration of the program, either by supervision or monitoring—I do not know which. Has any thought been given to some alternative model to the MOU model you mentioned earlier?

**Mr Mrdak**—There has been some thought given to it. We have just discussed AusLINK in terms of future transport directions, and one of the objectives of that is to get local government thinking much more regionally. One area that we have been looking at for some years has been the operation of regional organisations of councils—ROCs. We have identified about 63 such regional organisations of councils across Australia. Some of them operate very effectively, some less so. We would like to see more of that type of operation because I think there are some real benefits there. Clearly, local governments of themselves cannot handle a number of those sorts of issues you mentioned, and there are real benefits in dealing with them across a region. The thrust of the government's programs is to talk of regions in a much different way from the way they have been talked of in the past.

The Sustainable Regions program, which has been introduced, has been designed to look at regional groupings and individuals who add to that—not just local governments but broader community representation. So the Sustainable Regions package, which was announced by the government last year, is looking to develop that very model you have outlined. I think the challenge for us is: how do we fit local government into that and then bring that to being a much more regular service delivery operation than simply the regional development focus which it currently has? I think that is a valid model which can be applied in a number of areas, particularly in rural and regional Australia.

**Mr KING**—Taking up Mr Nairn's point and moving it slightly sideways, it struck me that if you do something along those lines you may be able to have a more transparent position in relation to cost shifting that may occur for any programs. The states, too, would be better informed about the impact of particular responsibilities that they might foist—unknowingly or otherwise—upon local government.

Mr Hrast, does the Roads to Recovery program address ways in which road transport can be improved, not necessarily by transportation of material by trucks but perhaps by alternative forms of transport, or do you only deal with rebuilding roads?

**Mr Hrast**—The Roads to Recovery program is specifically for roads.

**Mr KING**—Is it just for the reconstruction of roads?

**Mr Hrast**—It is also for new roads. The legislation very tightly specifies what the funds can be used for, and it is for roads as defined within the legislation. There is a fairly wide definition of what a road is. It includes things like a ferry, for example, or a bridge. It includes bike paths,

lighting for streets, traffic lights and signs—all those sorts of things can be funded, but it does not go beyond that.

**Mr KING**—Taking up that point further, it would be the AusLINK program that would look into the broader issues in relation to transport policy and alternatives.

**Mr Hrast**—That is correct.

**CHAIR**—Mr Mrdak, I want to come back to the question of cost shifting. As Ms Burke mentioned earlier, the City of Newcastle has given some very good information to the inquiry and quantifies what it sees as its cost shifting and identified it at around \$2 million per year. Do you think it would help if we clarified the powers, functions and responsibilities between state and local governments? In order to do that, we could do an audit of each state and identify those costs and the changes to powers, functions and responsibilities of state and Labor governments like Newcastle did.

**Mr Mrdak**—I think it would be beneficial, because it is the sort of quantification we have not had to date. The discussion of future funding models has really been considering that top level approach. We have not had that quantification. As Mr Watts indicated earlier, it is really only now, after having had the Commonwealth Grants Commission review and with some of the evidence that has come before the committee, that we have a clearer picture of the expanded role of local government into areas which one would not have traditionally expected them to be in. I think that type of audit would be very beneficial.

**CHAIR**—Which department would be the most appropriate to do this audit? Should it be Transport and Regional Services, Treasury or whom?

**Mr Mrdak**—I would have to think about that. The Commonwealth Grants Commission is used to dealing with those sorts of issues and is probably better placed than we are in the first instance. If I could have a think about that, perhaps—

**CHAIR**—If you could get back to us, that would be appreciated.

**Mr NAIRN**—If this committee did ultimately recommend some changes in the way in which funding is done, with more direct funding going to local government rather than via the states, one of the problems that will constantly arise, I suspect, is with regard to critical mass and the varying sizes. We talked before about the incredible difference in sizes in many of the local government areas across the nation. Even within a state, there are great differences. Do you see scope for—I do not want to use the word ‘amalgamation’—or some way in which, if you took that course, government could dictate cooperative arrangements between councils? That already happens to a certain extent, and there are some Commonwealth programs for which funding has been provided on the basis that several councils join together and carry out a particular function or share equipment. I heard something only recently, where the Commonwealth funded some equipment that is being shared between four local government areas because it could not be justified in one of the councils—they would not be using it all day, every day, 52 weeks of the year, so it is shared between four. Do you see some potential in that sort of area?

**Mr Mrdak**—We certainly do. As I said earlier, councils to date have been looking to form regionally organised councils. Some have been very successful and some less so. It really depends on how you get some local governments committed to it and whether you get the right level of commitment and willingness—also, if we could do that through some mechanism, given the clearly defined role as regional councils, as Mr King indicated earlier, if they had a clear purpose in relation to a funding mechanism or whatever. At the moment, a lot of that work at the regional level is at the strategic advocacy level rather than with programs, although resource sharing is taking place, increasingly. We certainly see benefit in that, and I suppose it is really a case of: what is a mechanism; and would the Commonwealth want to use funding mechanisms to try and get those regional outcomes; or does it look to a much more cooperative one without funding tied to it initially? Certainly, our overall view would be that there is real benefit from councils working regionally; it is just a question of how you best get that.

**Mr NAIRN**—There may be a few examples that you could look at. One that just came to mind as you were speaking is that, under our rural health strategy, in my electorate, three councils joined together to put forward a proposal of how they would operate some additional health services. The larger of the three councils more or less took the lead on it, but then realised that they were working within the one geographic area and the two other smaller councils would not have the capacity to do anything on their own. That is getting into those other social services, but it is something that could work very successfully.

**Mr Mrdak**—There is no doubt it is working. As we have seen the growth of a number of regional centres in New South Wales and in other states, they have formed relationships with some of the councils in smaller communities, which are suffering a reduction in services as a means of trying to deliver them, principally through that major regional centre. One of the concerns that has been raised with the government is that the major regional centre is often not being funded for services provided to outlying communities, essentially, which are continuing to receive financial assistance grants. People are actually travelling to the larger regional centre to use those services. The funding mechanism needs to keep pace with that. It is happening. The issue we would flag is: is the funding mechanism flexible enough to pick up all of that at the moment? A concern being raised by a number of larger regional councils with state grants commissions is that they feel they are not being appropriately resourced for the services they are providing to smaller outlying communities.

**Ms BURKE**—National competition policy is often one thing that is cited by local councils as being a huge impost upon them. Is the ongoing nature of this issue something that has come across your desk?

**Mr Mrdak**—We are aware of those concerns but it is not something that we have been readily involved in. I can certainly talk to Treasury and see what the concerns have been and what their position on that is.

**CHAIR**—Another concern that I would like to raise is the rationalising of roles and responsibilities between levels of government and also the tripartite agreements like some of the ones we have had with natural resource management. What is the scope for formalising this and who should be driving it?

**Mr Mrdak**—I think there is a great deal of scope to organise that. We have been concerned, and certainly local government has been concerned, that in some areas, especially the national action plan on salinity and others that have been driven between Commonwealth and state, it has not given enough involvement to local government right at the outset. Minister Tuckey has taken that up with other ministers in relation to getting local government involved. I think it is something that local government does need to drive much more. It needs avenues to do it and it is something that you may wish to discuss with the Local Government Association when they appear before the committee. They do need to be involved much earlier in program design and delivery with the states and the Commonwealth.

**Ms BURKE**—Do you think local governments should get constitutional recognition? You flit around it in your submission. Is there any scope for that to happen?

**Mr Mrdak**—The government's position is that local government has to build the case for it. While there have been previous unsuccessful attempts I think the case is probably growing but has yet to be made in the minds of most people. Certainly Minister Tuckey has said to local government at every opportunity, 'If you think that you are a responsible level of government you have got to start taking that debate to the community and make them come round. You cannot simply expect the Commonwealth to take the lead for you because you have not made the case as yet.'

**CHAIR**—To follow up on the actions required if the grants commissions' goals are to be achieved—they certainly deal with the performance of the local government grants commissions—if the grants commissions are proving an impediment to the transparent application of national principles for federal funding why is it necessary to use them?

**Mr Mrdak**—At the moment the legislation requires that the allocation be done and that each state has a local grants commission to make the allocation. I suppose our concern is that local councils in a number of states believe that the formulas or the processes used are not as transparent and as understandable as they might be. While the legislation prescribes that process we will have to continue to use it. What we have been trying to do is to get those processes to be more harmonised, much more transparent and, importantly, the way they work should be much better communicated to the local councils. I suppose while the legislation is as it is we will need to continue to use that mechanism. The question is how much we can change it from the inside at this point.

**CHAIR**—Would there be an advantage in using the Roads to Recovery mechanisms?

**Mr Mrdak**—That is an option that is available.

**CHAIR**—Would you favour it?

**Mr Watts**—There is a difficulty with the Roads to Recovery mechanism because you still need a way of distributing the grants between councils. The Roads to Recovery program uses the allocations that the state grants commissions came up with for allocating the local roads as the basis for Roads to Recovery funding. You still have to come up with the mechanism that allocates the grants.

**Mr Mrdak**—I think Roads to Recovery has demonstrated that local government sees benefit in a direct relationship with the Commonwealth. We would have to design a mechanism that would give us an allocation basis. We do not have that at this stage and have not for many years.

**CHAIR**—Going to another area, it is obvious—and some of us are more conscious of it than others, I suppose—that some of the rural councils are doing it tough and will continue to do it tough. The question arises: would it be timely to change the whole question of the minimum grant so that every council has to get a certain amount? Maybe that would make it a fairer allocation.

**Mr Mrdak**—Certainly the minimum grant does run counter to the relative needs basis of the act. While we do not have a formal position, we do think that there are councils—and the Commonwealth Grants Commission has identified them—for which Commonwealth funding is a small proportion of the revenue and which have the capacity to raise their revenue by other means; whereas, as you have indicated, there are smaller rural and regional councils which do not have the revenue raising capacity and which are clearly struggling. We think there is merit in looking at removing minimum grants, but we do not really have a position at this point.

**Ms BURKE**—Doesn't that also get back to the actual amounts spent by councils? It is not apples and apples: you cannot compare what Monash is spending with what somebody else is spending, if you look at their total revenue base, because they are covering a much more populous area and the whole lot. That is one of the difficulties, isn't it?

**Mr Mrdak**—It is. The grants commissions work on the basis of trying to establish what the average price is for delivering a service and then look at what revenue is available to those local governments to do that. I suppose that if you were to apply a full relative needs model then you would do away with minimum grants, and there would be some councils in Australia who would not receive a Commonwealth financial payment because we would be paying all of it on relative needs. But, at this stage, we have not got to that point, because, as I said earlier, the view has been that each local government has some right to a share of Commonwealth taxation revenue.

**Mr KING**—A legitimate expectation.

**Mr Mrdak**—That is much better put: a legitimate expectation to a share of Commonwealth taxation revenue. That is what the act at the moment tries to capture. It sets aside a proportion—30 per cent—for that, and then 70 per cent for the relative need general purpose grants. That debate is one that the committee will need to have as to whether that continues in that way.

**CHAIR**—But, for example, we have a submission from the National Farmers Federation which quotes some Victorian figures that rural and regional councils spend \$867 per resident whereas metropolitan councils spend \$624. That is quite a big difference in actual expenditure per resident. Doesn't that encourage a bit more focus on that and maybe even encourage you to express more of a view?

**Mr Mrdak**—Certainly the allocation process should, in the way grants are allocated, pick up the higher cost of service delivery in those areas. There are issues in the way in which the general purpose grants are allocated across states. The interstate distribution, for a start, which is

done on population basis, disadvantages areas like the Northern Territory vis-a-vis Victoria and, say, New South Wales. But the allocations by state grants commissions, if they are done on a proper horizontal equalisation basis, should pick up those highest delivery costs. Without taking a position, we certainly think there is merit in pursuing a relative needs basis as the sole basis for FAGs funding.

**CHAIR**—Getting back to payments made directly to local government: we talked about some of the potential benefits and, in fact, about the establishment of an alternative allocations system. Would this give the Commonwealth the ability to monitor the application of national principles more closely?

**Mr Mrdak**—Yes, it would.

**Ms BURKE**—Is the level of FAGs—that is, the overall pool—sufficient then?

**Mr Mrdak**—I think there will always be a debate about that.

**CHAIR**—There being no other questions, I thank you very much for your appearance before the committee. When the *Hansard* is available, you will be able to correct any errors in fact that you feel need to be changed. Thank you again for your appearance before the committee; it has been very valuable.

**Proceedings suspended from 10.44 a.m. to 10.59 a.m.**



**MORRIS, Mr Alan Gregory, Chairperson, Commonwealth Grants Commission**

**SEARLE, Mr Robert, Secretary, Commonwealth Grants Commission**

**CHAIR**—I welcome representatives of the Commonwealth Grants Commission. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter. Would you like to make an opening statement before I ask members of the committee to proceed to questions?

**Mr Morris**—Yes, but only a very brief one, because the Commonwealth Grants Commission has no ongoing involvement with local government. Our only involvement in recent years has been the review of the operation of the Local Government (Financial Assistance) Act, a review which has already been referred to today and which was referred to in the submission from the Commonwealth department. That was a specific review which I would categorise essentially as technical. It was to examine the way in which a specific piece of Commonwealth legislation was operating and it was focused on a number of technical aspects associated with the distribution of funds on an intrastate basis.

Our terms of reference did refer us to changes in the functions of local government over time and the impact on local government revenue raising of the financial assistance provided by the Commonwealth. The issues of cost shifting, which I understand to be a particular focus of this committee, were raised during that review but were essentially marginal as far as we were concerned. Our report does contain some information which is relevant to you, particularly the time series analysis which we undertook and which showed that there have been changes in the roles and responsibilities of local government over the period 1961-62 to 1997-98 and that those changed roles were clearly away from traditional property related functions and roads in particular towards human services.

That time series analysis is consistent with anecdotal evidence which was put to the commission during the course of our review and which you already heard about this morning. That anecdotal evidence was that all local government councils were increasingly finding that they had to assume new functions. Undoubtedly for us, the clearest demonstrations of this were in the rural and remote council areas but I think it is clear that all councils have assumed wider responsibilities. We did not really uncover too much evidence that councils were giving things up; rather they were accumulating responsibilities.

These additional responsibilities show more clearly in the rural and remote areas, largely because they are associated with phenomena that receive a fair bit of attention in the media—closures of banks, doctors' surgeries, pubs and so on. It is far more graphic and dramatic in the rural council areas, but I think it is fairly clear that it is consistent across local government bodies in all parts of Australia. That is really all I want to say by way of introduction. This document essentially outlines what we know about the issue and what we have had to say about it. If there are questions I would be happy to respond to those.

**CHAIR**—Thank you for your submission. It is also timely that we have received your review of the operation of the local government act. At the end of your opening comments you were talking about the more graphic appearance of problems in the rural and regional areas compared to the municipal ones—and you cited things that are, I suppose, separate from local government, like the closing of banks and so on. You suggested that while it is more graphic, it may not be more serious in terms of the shortcomings of what has been provided. Do you have anything to quantify whether it is in fact across the board or whether there is a greater disadvantage, if you like, with the decline in the regional areas compared to the major metropolitan ones?

**Mr Morris**—Quantification, no. I do not believe that quantification exists in any systematic and comprehensive way. I think the phenomenon is widespread, but I will come back to your use of the word ‘serious’. I think it is more serious in many rural communities—not only more graphic, but also more serious—largely because of the importance of Commonwealth financial assistance to smaller rural councils. They have limited capacity to raise their own revenue, including their more limited capacity to raise revenue through user charges compared with the larger metropolitan councils. So they have a budgetary inflexibility that the larger urban and metropolitan councils do not have, which means that any requirement for them to take on additional functions considerably exacerbates the inflexibility that they already face in their budgetary circumstances. So I think the phenomenon is widespread across all councils but I think the implications of that are more serious for the smaller councils, particularly those in rural regions whose own revenue raising options are more restricted.

**CHAIR**—There were some figures given to the committee by the National Farmers Federation—and the Victorian Farmers Federation has some figures incorporated in this submission. They say:

Rural and regional councils also spend more per resident (\$867) than do metropolitan councils (\$624) with small rural shires spending \$1,123 per resident.

That is approaching double the metropolitan figure. Would you accept that those figures provide a realistic assessment?

**Mr Morris**—If I think of those numbers in terms of the sort of work that we normally do in relation to Commonwealth-state financial arrangements, yes, they are consistent with the pattern that we observe. The costs of providing services in the more remote areas are much greater than they are in the more concentrated urban and metropolitan areas. There are costs associated with isolation, with the dispersion of the clients who are to be serviced—distance imposes significant costs, as does a small, scattered population. So those sorts of numbers are consistent with what we observe in our normal inquiries. There are probably two points that need to be made to put that into context. The first is that to address these sorts of differential costs is the reason that the state local government grants commissions exist. So there is nothing at all remarkable about the fact that different councils are able to produce figures that are ‘very, very different’ in terms of what it costs to deliver basic services; that is just the reality.

Of course, the other point is that in the quantum of funds that the state local government grants commissions have to allocate in the first place there are in-built differences, because the interstate distribution is on a per capita basis—and I am talking about the general pool here, not the roads pool. If it costs more to deliver services in a state where the preponderance is for

small, widely dispersed, isolated communities, then an equal per capita interstate distribution is going to mean that councils in differing states are not going to be equalised to the same level in the first place, because the quantum of funds which are available to the two local government grants commissions are not going to enable that to happen. I do not find anything remarkable in those numbers. They are very plausible.

**Ms BURKE**—Is one of the base difficulties the service provisions and what local councils are providing? Generally, we would fund things because we know there is an X service outcome but, as we have said today and the submissions say, there is no consistency between what local governments provide and the level of service they provide. We are not comparing apples with apples. We are not even comparing apples with oranges. We are comparing different things. Is there a difficulty regarding what local governments provide and the funding that they are getting, because you cannot do a direct correlation between them?

**Mr Morris**—Yes, there is. Local governments are not particularly constrained by legislation in any state in what they can do. They have considerable flexibility to determine their own areas of service delivery and where their own priorities are. As we have indicated in our report, this has led different councils in different parts of Australia in different directions for very understandable reasons. It is not necessary for councils in urban areas, by and large, to think about how they are going to support and sustain the ongoing availability of primary health care services, but that has become an issue in some rural areas. Councils have gone in different ways, and this leads to a number of difficulties for the local government grants commissions in how they decide what the scope of their assessments are to be, how they determine what local government activities really are and how they consider the relative disadvantage of councils within the state or territory jurisdiction in order to promote the objectives of the legislation.

**CHAIR**—Does this mean that the state local government grants commissions are the best bodies to do this?

**Mr Morris**—Our report should not be read as a criticism of state local government grants commissions or of that process. I cannot quickly envisage a process which would lead to better outcomes. We have observed that there are some ways in which the state local government grants commissions can improve the distributions that they are undertaking. Equalisation is quite an arcane and complicated business, and we observed in a number of cases that some of the local government grants commissions were not doing what they thought they were doing. We have made some suggestions about how they undertake the assessments that they make and how they look at relative disadvantage. I understand, although I have not been involved, that a number of them have already begun to change their practices and pick up the suggestions that were made in our report. We are not critical of the process by which funds are allocated through state local government grants commissions. There are some technical improvements that can be made but the fundamental conclusion of our report is that, by and large, the objectives of the Commonwealth are being achieved.

**Ms BURKE**—To go back one step, are the financial assistance grants per se working? If not, is there another model? If we step back totally, is there another model—like we have been throwing around today, obviously, with the department—that would work?

**Mr Morris**—It would not be helpful for me to step outside the questions we were asked to address. Our conclusion is that the Commonwealth's objectives are being met. Is the FAG process working? Our conclusion is that yes, it is working.

**Ms BURKE**—One of the other problems with the new services that local governments are taking on is human services, which have much higher employment costs associated with them. This is the submission from some of the associations. Is that one of the things you came across, that the type of services they were delivering and the manpower involved and wages costs were a huge impost?

**Mr Morris**—Yes. The submissions that we received and the hearings that we conducted did not dwell at length on the specifics but the general direction that you have indicated is very clear, and that is that councils are moving into the human services area and these are very costly to the extent that they are perhaps imperfectly meeting those costs. Councils are doing so typically by reducing maintenance expenditure on their capital infrastructure, particularly their roads. If you do not maintain a road this year the electorate will tolerate that but the electorate will not tolerate the winding up of a particular service in the welfare area, for example.

**Ms BURKE**—Your report stated:

The operation of the Act would be improved if the Commonwealth's intentions in providing its assistance were clearer and more transparent, with a clearer relationship between the purposes and the funds provided.

I have not read your report, I confess. Are there recommendations as to how that transparency becomes clearer? We have said that councils are being pushed by the community to provide never-ending services. In WA local governments were more or less saying to us, 'If they want it we are giving it to them.' We cannot keep going exponentially and saying to the community, 'Because it is nice to have you are going to get it.' Push will come to shove always. Are there ways of saying, 'This should be the level of service; this is how it's provided'? Did you make some recommendations about the transparency?

**Mr Morris**—The answers are yes and no. We made recommendations that we thought would improve the transparency and accountability of the process and which would relate more clearly the objectives of the Commonwealth to the funding arrangements. They are very mechanical recommendations. We did not go on to address the area that you have just talked about. We did not address the question of what should be the boundaries of local government responsibility. We were not asked to do so, so we did not. We identified what we believed the fundamental objectives of the FAG process were and then recommended how the total quantum of funds could be separated into particular pools that related to each of those objectives. That would then enable the objectives to be more clearly understood and carried forward by the local government grants commissions, rather than having a pool which has to deliver contradictory objectives.

**Mr NAIRN**—That is the exact area that I was going to ask a question on. You recommended three pools: a per capital pool, which is pretty straightforward, distributed particularly on a population basis—there is no real argument about that; a local roads pool, distributed according to relative roads needs; and a relative need pool, distributed according to relative need, based on equalisation principles. Would you like to comment further on the second and third pool, as to

how you see that working? Or are you simply saying, 'Well, this is how it should be done, but then it's up to the states to determine the interpretation of those relative needs'?

**Mr Morris**—I really need to respond to that question in terms of all three pools. We certainly did not put the view that the discretion and flexibility of the state local government grants commissions should be unlimited—not at all. We did say, though, that the process should not be overly prescriptive, because circumstances across Australia vary tremendously and local government grants commissions need to have the scope and the flexibility to be able to implement the objectives of the act in a way that makes sense in the environment in which they operate—and they are not all the same. We need to look at the three pools because this is a total package. The per capita pool is our way of saying that we think, based on everything that was put to us, that the old minimum grant arrangement should be retained. We did so after some serious contemplation within the commission. After all, equalisation is our business and a minimum grant arrangement, a per capita arrangement, is contrary to equalisation.

At the same time, we were mindful of two points that were put to us fairly consistently. The first is that one of the original reasons that the Commonwealth financial assistance grants were introduced, in the words of the then Prime Minister—not the exact words because I cannot remember the exact words—was to make local government a partner in the Federation. There is a very clear sense across the majority of local governments that the FAGs are the remnants of an arrangement that was introduced to ensure that all councils received some share of the total revenue going to the public sector in Australia. The second point is that, with astonishingly few exceptions, local government councils supported the retention of minimum grant arrangements. We had expected there to be a lively and divisive debate about this issue. There is only one council that stands out in my mind as being implacably opposed to the minimum grant arrangements. I would have to say to you, overwhelmingly—

**CHAIR**—We are all curious.

**Ms BURKE**—Name them!

**Mr Morris**—Overwhelmingly, even the more disadvantaged councils accepted that the intention and the spirit of the legislation was that everybody should get something. For that reason we saw no compelling argument to move away from the notion of a minimum grant but we considered that to pull the minimum grant out of a pool, which is the horizontal fiscal equalisation as near as possible pool, was conceptually difficult. It would make much more sense to pull that out and make that a separate pool.

With respect to the local roads pool, we accepted that there are different distributional arrangements for roads and we were also overwhelmed by the representations from councils not to fiddle with their roads money. Roads clearly have iconic status in local government and there was concern verging on paranoia that we would do something that would change the roads funding arrangement. We took the sensible course and said, 'That's working reasonably well, so we'll leave that.' It is already a separate pool, so we will leave it as a separate pool and then what is left is the pool which we said could be used to deliver the Commonwealth's equity objective—that is, to provide additional resources to local government councils who were relatively disadvantaged.

Being the ultimate technocrats, we did not like the language ‘horizontal fiscal equalisation’ because we do not think it is. We wanted to change that, so we recommended ‘relative needs based on equalisation principles’. Not all councils would participate in that pool and as our report indicates there are different ways in which that distribution process could be undertaken. They are all quite respectable, and within limits we thought the state local government grants commissions should have some flexibility to decide which distributional and allocative processes made the most sense for their circumstances.

**Mr ALBANESE**—You said just then that local government wanted to be recognised as a partner in the federation—you were quoting a former prime minister. To what extent is the lack of recognition in the Constitution, even of local government, an issue? If you were taking up Anna’s principle, if you were taking a step back—and I am not sure if your report refers to this—would you see a potential model as being the ACT model, if you like, with two tiers of government rather than three? That is the extreme end of where we could end up with this committee report.

**Mr Morris**—I do not want to be difficult, unhelpful or obtuse—I can probably be all three without even wanting to be—but the commission simply—

**Mr ALBANESE**—That is our job!

**Mr Morris**—does not have a view about that. As I said at the start, we do not have ongoing involvement with local government. We do not have ongoing involvement with the state local grants commissions; this was a one-off. We were asked to review a piece of legislation. I do not think it would be appropriate or helpful to give you a personal view. The commission does not have a view about those things.

**CHAIR**—We do not mind if you want to say it is a personal view. It does not have to be the commission’s view. Given your experience and knowledge, we will always appreciate hearing your view.

**Mr Morris**—I do not know whether my personal view would have any more merit than anybody else’s. Let me answer it in a slightly obtuse way: the more vigorous debate is often about the constitutional position of the states and whether the states ought to be abolished. I take the view that that is a pointless debate. The states’ position is constitutionally enshrined. They existed before the Commonwealth did. I really find that I have better things to do than get involved in that debate, because it is not going to go anywhere. I am not saying that the push by local government to get written into the Constitution will never go anywhere; I cannot see it going anywhere in the near future. I have enough people attacking me without having to encourage more.

**CHAIR**—We did not think we were attacking you.

**Mr Searle**—This is not a personal opinion but, internationally, the trend is towards more levels of government in a country rather than less and you have very active—

**Mr Morris**—You mean fewer.

**CHAIR**—Not if you are in Europe; you are right.

**Mr Searle**—The trend is towards more levels of government rather than fewer. The international finance agencies, the IMF and the World Bank, both have quite extensive programs advising particularly the developing nations on how to devolve functional responsibilities to what we would term lower levels of government or third tiers of government. Some countries are now looking at introducing a fourth tier of government. I cannot think of one example where there is a serious move to reduce the number of levels of government in a country.

**Mr Morris**—I can think of one where it would be a very, very good idea, but that is different.

**Mr KING**—I want to ask you, firstly, about the method of funding local government and, secondly, about fiscal equalisation. As I understand it, from the Commonwealth's point of view, you have your FAGs legislation and then you have your general purpose grants to the states. Is there any other method by which Commonwealth money gets to local government?

**Mr Morris**—There are some Commonwealth payments which go to local government. I think about two per cent of total local government revenue in Australia comes in the form of payments which are outside of the FAGs. These are typically programs where there is an agreement between the local government body, probably the state and the Commonwealth, on what the aficionados call 'wedding cake' funding arrangements, where you have tiers. A little bit of Commonwealth money seeps into local government that way but it is a relatively small amount and a very small proportion.

**Mr KING**—Regarding FAGs, does that money go directly or through the local government grants commissions?

**Mr Morris**—The FAGs?

**Mr KING**—Yes.

**Mr Morris**—The FAGs go through the local government grants commissions.

**Mr KING**—What about Roads to Recovery? Does that go through FAGs or is that direct?

**Mr Morris**—No, it is completely outside.

**Mr KING**—So that is outside FAGS. But that is not included in your figure of two per cent?

**Mr Morris**—No. At the time we were doing our inquiry, Roads to Recovery had been announced.

**Mr KING**—It had not started. I see.

**Mr Morris**—It had not started.

**Mr KING**—I think you have answered my question. I want to ask you a couple of questions about fiscal equalisation. Where you have cost shifting of the type that has been defined by DOTARS, isn't there a problem in the principle of fiscal equalisation? Let me give you an example: let us assume that, over a 10-year period, a state government has reduced the amount of funding that it is giving to local government by, say, eight per cent, but it has increased the delivery of service requirements by, say, a third; yet fiscal equalisation assumes that it is of no consequence to you and your commission as to what happens between the states and the local governments within the state boundaries, doesn't it?

**Mr Morris**—At the risk of being repetitious, I continue to make it clear that we have nothing to do with local government financing.

**Mr KING**—That is the point I am making.

**Mr Morris**—The state local government grants commissions unhappily carry a very similar name to our commission but we have nothing to do with them. The answer to your question is that it is not a problem for equalisation but it is a problem for service delivery to the constituents of local government. Equalisation can deal with it; it just means that local government bodies will be equalised to a lower level in the face of—as in the scenario that you have presented—rising demands for funds to deliver services. The technical answer is that you can still equalise. So it is not an equalisation issue; it is an issue about the quantum of funds that is available to be equalised.

**Mr KING**—Could I take that a bit further? At page 131, the equalisation principle is stated, and it reads:

... each State should be given the capacity to provide the average standard of State-type public services ...

**Mr ALBANESE**—That is probably our document.

**Mr KING**—Yes, it is your document, at page 131. You know the fiscal equalisation practice off by heart. I am sure you dream about it in bed—I do not know.

**Mr ALBANESE**—That is more detail than we needed, Peter.

**Mr KING**—When you define fiscal equalisation that way and you refer to state type public services, you are assuming, aren't you, that all services administered by local government are state type public services?

**Mr Morris**—No, we do not assume that in our normal work, if I have understood your question.

**Mr KING**—Do you assume that there are any services delivered by local government that are state type public services for the purposes of the fiscal equalisation principle?

**Mr Morris**—We make a different assumption.

**Mr KING**—Just try and answer my question, if you would not mind.



**Mr Searle**—Can I say something, Mr Chairman? I think that is a quote of what the Commonwealth Grants Commission's objective is in applying fiscal equalisation to state finances. In that sense, the use of the term 'state type services' is appropriate. If you had asked us to provide a definition of horizontal fiscal equalisation that might be appropriate to distributing local government FAG funds through the state local government grants commissions, we would have local government type services in that definition rather than state type services. There is a question of how, in any case, we define local government type services. The commission's role is to equalise the fiscal capacity of state governments and it is based on some quite specific pillars that support the principle. One of those pillars is what states actually do. Horizontal equalisation is all about equalising the capacity of, in our case, the states to provide the services that states provide. If we were applying that to local government, it would be equalising the capacity of local government units to provide the services that local government provides. Both of those things are based on what is actually happening at those two levels of government. In any scenario, if one level of government transfers functions to another level of government, equalisation can still be applied to both levels of government.

**Mr KING**—But that depends on how you define equalisation.

**Mr Searle**—Of course, but under the definitions we currently use in Australia—the definitions we use at the state level and the definitions the state grants commissions use at the local government level—equalisation at both levels can still be achieved, given that there are enough funds available et cetera because the principle in both instances is being applied to what states actually do and what local councils actually do.

**Mr KING**—I am concerned that cost shifting, which is the very issue we are looking at here, is undermining the fiscal equalisation principle, which is responsible for the dispensing of \$35 billion of Commonwealth money. What do you say about that?

**Mr Morris**—State government financial support for local government—and we have to be very careful about the terms we use—has actually increased over the period since the FAGs were introduced.

**Ms KING**—That is not what your report says on page xiii. You say:

State assistance has declined in relative importance from about 15%—

of local government revenue—

**Mr Morris**—In relative importance; that is why we have to be careful about the language.

**Mr KING**—Let me finish:

(in 1974-75) to 7% (in 1997-98).

That is inconsistent with what you have just said, isn't it?

**Mr Morris**—No. The absolute level of state government financial support for local government has grown in real terms.

**Mr KING**—Absolute, yes, but we are not talking about absolutes. You deal with sharing and proportions.

**Mr Morris**—I am trying to make sure that we are all using language in the same way and that we are all talking about the same thing. The share of local government revenue coming from the state has fallen significantly. It has in absolute real dollar terms increased. It just happens to have increased at a much slower rate than the rate of increase in local governments' own source revenue and in the FAGs.

**Mr KING**—Commonwealth spending.

**Mr Morris**—Yes, the Commonwealth FAGs.

**Mr KING**—I do not want to interrupt you but I am trying to come to the nub of this problem. Funding from own source revenue and funding from the Commonwealth have increased but funding from the states has fallen. Isn't that the nub of the issue we are dealing with here?

**Mr Morris**—It has fallen in relative terms.

**Ms BURKE**—Over what period?

**Mr Morris**—Since 1974-75, when the FAGs were introduced.

**Mr Searle**—This is presented in chart form.

**Mr KING**—I have seen the chart. Could you please focus on the question I am asking you about fiscal equalisation being a principle which is delivering fair outcomes. Isn't it being undermined by cost shifting?

**Mr Morris**—Again, the use of language is very important. Fiscal equalisation does not set out to deliver fair outcomes. That is not what we do.

**Mr KING**—All right. I mean fiscal equalisation outcomes as defined as the basic principle administered by your commission and set out in your report to us. Let me be precise.

**Mr Morris**—We set out to equalise the capacity of the states to provide services, recognising their expenditure needs and their revenue sources. That is what we do. What they then do with the funds is their business. If they spend them in ways that do not deliver what people regard as fair outcomes then that is not our business; that is not our affair.

As Bob has said, what we do, in making our assessments about what equalisation needs are, is very much driven by what the states actually do. If, on average, they are moving away from certain areas, then the equalisation that we deliver to the states will vary. If they move away from providing a particular function and South Australia has a marked disadvantage compared with anybody else, then South Australia's disadvantage will reduce if they move away from that, so the share of funding that they need—their relativity—will reduce. It is a dynamic process in that sense.

**Mr KING**—So are you saying that, if you are administering your principle properly, there is no opportunity for states to double-dip by cost shifting to local government?

**Mr Morris**—I am not saying that under no circumstances does that happen; quite conceivably, it does happen, but at the level with which we deal the process takes that into account.

**CHAIR**—Can I clarify Mr King's point. You are saying that conceivably it does happen. If any particular state withdraws funding to local government for a particular service, are you saying you then compensate that state with your assessment?

**Mr Morris**—No. When I say we operate on the basis of what the states do, I mean that states themselves do different things, and so it is necessary for us to determine what the policy standard is and what the average is of what states do. That is necessary for us to decide what the scope is of the equalisation that we are assessing. Having decided the average of what states do, we then assume in our processes that that is what states do. If one state chooses to do something different, it is neither penalised nor rewarded for doing that something different: it wears the consequences of its own difference. If it chooses to spend more in a particular area, then we do not compensate for that additional expenditure. If it chooses to spend less in a particular area, then it keeps the assessment that we make based on the average of what the states do.

**Mr KING**—That is right, but I think the chairman is coming to the point that I was concerned about. Let us assume a state says to you, 'We are ensuring the delivery of increased access to forests and natural heritage resources and we are purchasing land for that purpose,' but then, independently of what it says to you, it requires local governments to actually do that—as has happened, according to this report, in New South Wales. Doesn't that mean that in effect the state is double-dipping? It is certainly undermining the equalisation principle that you have mentioned.

**Mr Morris**—In addition to the policy standard that we set, we also set a financial standard. Once we have decided on a policy basis what states do, we then have to decide how much states spend in that area, so we do not take it at face value: we examine what, on average, the states spend on a per capita basis on that function. So if a state, having said it will do something and we accept that that is the policy standard, then spends less, the policy standard drops and so the amount that it receives under the equalisation process also diminishes. This does not work perfectly—do not misunderstand me. It does not work perfectly because obviously New South Wales and Victoria, with overwhelmingly the majority of the population and the largest levels of expenditure, have a disproportionate impact on the financial standard. But that is the principle and to this point, although the states have plenty to say about what we do, there has been no serious dispute about that basic mechanism.

**Ms BURKE**—Isn't that one of the difficulties that we have, though? You can apply that test to the state government but then they cannot apply it to the local government because—and you say this in respect of the effort neutrality principles—we cannot actually set the standard of the service delivery. We do not even know the service delivery that the local government is providing. So you apply a test to the state that the state local commissions cannot actually apply to local government.

**Mr Morris**—This is one of the areas where our report suggests that the local government grants commissions could make improvements. The important thing about effort neutrality is to ensure that the scope of the assessments that they are making picks up all the things that local governments do, that it properly assesses all the influences that bear on the costs of delivering services or the revenue that they can access and that it properly measures relative advantage as well as disadvantage. If those things are done then in a technical sense you will get the right outcomes.

**Mr Searle**—It is important in that sense that individual councils cannot adjust their policies to make their grant higher. That is really the key to policy neutrality. If they can do that, there is clearly something wrong with the model of distribution that is being used.

**CHAIR**—Can we look at this another way? You have had this model for 30 years now—

**Mr Morris**—No, not 60; it is 30. Hang on, are we talking about local government or Commonwealth and state government?

**CHAIR**—Local government.

**Mr Morris**—For 30 years that has been in place.

**Ms BURKE**—But for Commonwealth and state it has been 60.

**Mr Morris**—The principle has been in place for 60 years.

**CHAIR**—But clearly, from the point that has already been raised by Mr King about state governments seeing different functions which were not considered 30 years ago, like taking land and putting it into national parks and so on—

**Mr KING**—Productive land.

**CHAIR**—Let us throw open the whole thing. Is the current system really serving us as well as it should now? With Commonwealth money going through to local government and with states changing—and often cost shifting is mentioned—we do have other examples where the Commonwealth is funding on a discretionary basis. The one I mentioned earlier, in the previous hearing, was funding for non-government schools where there is disadvantage funding added in. Have you look at this model or similar models, rather than just continuing what we have had for 30 years?

**Mr Morris**—We have never been asked to look at that.

**CHAIR**—Can I ask you to do that now?

**Mr Morris**—In terms of references, we have never been asked to look at that and, in a formal sense, the commission only responds to terms of reference. It does not initiate its own inquiries and it does not go beyond the terms of reference that are given to it. We have never been asked that question, so I cannot give you a commission response.

**CHAIR**—Can you offer your own opinion?

**Mr Morris**—The constitutional issues get a bit tangled up, even with things as they are. At the very back of our report, we make passing reference to some of the constitutional and governance issues. Local government is a creature of the states, and it is the states which have the constitutional responsibility for and control of local government. The process under which an increasingly important part of local government funding is coming from the Commonwealth does create some governance issues.

Under the existing legislation the ability of the Commonwealth minister to see the wishes of the Commonwealth carried through using the leverage of the financial assistance grants is very limited. If I remember correctly, essentially the minister can either approve the recommendations of the state local government grants commission or withhold the funding. There is a fair distance between those two possibilities. If you were to look at a system which saw a greater proportion of the funding allocated in a more direct way from the Commonwealth to local government itself—it is not clear to me how you would overcome these constitutional and governance arrangements.

**Mr Searle**—To answer the question of whether effectively a tied grants system would be better than an untied grants system—whether the Commonwealth would be better to go along with direct funding for specific projects—it depends very much on what level of responsibility we want to give to each of the levels of government and also the extent to which the objective is to equalise the capacity of local government to provide services. Leaving aside the first one, which is a political issue, specific purpose payments, tied grants, conditional grants, direct grants, or whatever you want to call them, can be very effectively used for individual services and functions of government. You can cover the whole of the expenditure budget of local government and you can equalise that. But it is very difficult to use that sort of a process to adjust for differences in the revenue raising capacity of local authorities. That is why systems of untied funding always take into account the revenue raising capacity differences. They do not always take into account the expenditure capacity—that is sometimes done, if at all, solely by specific purpose payments but the specific purpose payment process cannot take account of differences in revenue raising capacity.

**Mr KING**—On a slightly different topic, on page 37 of the CGC review in relation to the per capita grant pool you recommend that what would have been funded through 30 per cent of the state's general purpose pool would now be funded, if your recommendations were carried out, through the per capita pool. A little further on, at paragraph 29, page 40, you speak about the concept of relative need based on the equalisation principles. Then you refer to a concept of the average level of services. Does the mechanism of using the per capita pool mean that the general allocation to the states through the CGC will be varied? Is that what you mean by the 'state's general purpose pool'?

**Mr Morris**—No.

**Mr KING**—What are you talking about in paragraph 13, page 37?

**Mr Morris**—In paragraph 13 and in this whole report we are talking only about Commonwealth FAGs to local government.

**Mr KING**—You are not talking about carving out of the allocation through the CGC processes.

**Mr Morris**—No.

**Mr KING**—At paragraph 29, page 40, who has developed the concept of the ‘average level of services’ provided by a local government body?

**Mr Morris**—There is nothing new in that. That is a concept that is required to develop any kind of equalisation approach.

**Mr KING**—But you told us that you do not have regard to what local governments do and therefore you have no conception of what that means in relation to local government.

**Mr Morris**—This is only from the financial assistance grants to local government; this has got nothing to do with what we do.

**Mr KING**—To your knowledge, is there any practical measure at the moment administered by anybody with regard to the average level of services provided by LGBs?

**Mr Morris**—It is what we think state local government grants commissions should do, fundamentally, as the building block of their assessments.

**Mr KING**—So the answer to my question is no.

**Mr Searle**—It is certainly available in financial terms. I can look at data and decide what the actual per capita expenditure on road maintenance is and that gives me, across Australia, a standard level of local government services on road maintenance. It does not say anything about the quality of the maintenance, but it certainly gives me a financial standard that we can work with.

**Mr KING**—Yes, but that is extrapolated from other figures. I am just wondering whether there is any statement anywhere of what the average level of services provided by LGBs in Australia is and ought to be.

**Mr Searle**—In financial terms, yes, there is.

**Mr KING**—Where is that to be found?

**Mr Searle**—I would be surprised if you cannot find it in the national report on local government, which summarises the financial data that each of the state local government grants commissions uses each year in their assessment of local government’s relative needs.

**Mr KING**—Through you, Chair, could I ask that that page of that report be provided, because I would like to see that?

**CHAIR**—Okay. I would just like to come back to the question relating to equalisation and so on. Where a state government chooses to peg rates, how do you account for that?

**Mr Morris**—How do state local government grants commissions account for it?

**CHAIR**—Yes.

**Mr Morris**—Essentially, through the establishment of financial standards in revenue capacity. The revenue capacity of a local government council is what it can raise through rates and so on. The financial standard that will result will reflect not only what its rate base is and the number of rate payers and so on, but it will also show where it is impacted by rate capping or rate pegging.

**CHAIR**—Would that not create distortions when you compare states?

**Mr Morris**—It would create distortions if councils in one state with rate pegging were being equalised with councils in another state that did not have rate pegging, but that is not what is happening.

**CHAIR**—So how do you avoid that happening in practice?

**Mr Morris**—It does not happen in practice because, firstly, the interstate distribution of financial assistance grants is equal per capita. That is not equalisation at all unless you define equal per capita as equalisation. Then, unless rate pegging is applied differentially within a state, all local government bodies within that state will be assessed on the same principles. The rate capping is part of the revenue capacity that they do or do not access.

**Mr Searle**—It may have an impact on the approach that the New South Wales Local Government Grants Commission may have taken to measuring councils' relative rate raising capacity; but it is up to that commission to look at that issue.

**CHAIR**—Over time presumably there would be a distortion within the state. Do they actually look at it?

**Mr Searle**—I cannot tell you. We do not monitor their activities and we try not to comment too specifically on what any one of them does.

**Ms BURKE**—Does someone monitor their activities?

**Mr Searle**—They are expected to conform with the national principles and whether they do that or not is monitored by the National Office of Local Government in DOTARS.

**Ms BURKE**—And there is actually meant to be a tabled report each year to the federal parliament by the department, isn't there? The people behind you are nodding.

**Mr Searle**—Yes.

**Ms BURKE**—During your inquiry, did you come across the levels of the FAGs overall? Is it sufficient?

**Mr Morris**—Every representation to us made the point that the two things of greatest importance to local government had been specifically excluded from our terms of reference. We comment on that at the beginning of our report.

**Ms BURKE**—That is interesting, because the terms of reference for our inquiry probably have one of those limitations as well. In relation to our specific inquiry, did you come across issues of cost shifting? Did such issues come up?

**Mr Morris**—Yes.

**Ms BURKE**—Again, was that anecdotally or were there specific examples that we can hang our hat on and say, ‘This is it,’ or was it more about what councils perceived they should be doing?

**Mr Morris**—The anecdotal evidence was certainly the most emotive. But I think the more scientific underpinning was our time series analysis of the composition of local government expenditure. That showed, without any ambiguity and without any doubt, that there has been a substantial change in the pattern of local government expenditure which is totally consistent with the anecdotal evidence given to us. We refer to this at pages 52 onwards in our report. A number of the submissions that we received did cite evidence. I think it is relevant to note that there are different processes at work—and, on the face of it, I am not sure where this information is in the report, but it is easy enough to find.

The changing pattern in expenditure could be the result of a number of different things. Firstly, it may be straight devolution of functions from one level of government to the other—and it is not only the state that is in play here. That devolution may or may not have been associated with financial compensation and, as far as local government is concerned, almost universally they say it has not been. Secondly, it may be what we call raising the bar where, in areas like environmental requirements, state governments have, for very good and proper reasons, mandated higher standards which have imposed costs on local government bodies. We did not get any evidence that they have been compensated for that.

There are also areas that councils have chosen to go into, presumably in response to what they perceive to be the priorities of their communities. I think the most significant of these in cost terms is associated with the welfare roles that the Commonwealth in particular has been withdrawing from, and local government councils have felt obliged to step in and pick up those areas of responsibility. So there are a number of different reasons why local government functions have changed. Almost all of them seem to have been associated with increased cost burdens for local government. Whether all of it could be called cost shifting or not, I think, is really a matter of judgment.

**Ms BURKE**—There are some instances where local government took on responsibilities for which they have been compensated. A recent example is the taking on of the collection of a fire services levy in WA. Their association agreed that the amount councils were being compensated was sufficient, but individual local governments did not agree that there was a sufficient actual cost recovery for them. Did you come across those sorts of instances where, at an overall state level, the association said, ‘Yes, that’s sufficient funding,’ but various councils said, ‘No, we are actually going to be out of pocket in the order of \$10,000 to \$30,000 because of the additional



costs'? The costs might have been for computers, staffing or even warehousing information. Did you come across those sorts of examples of perception versus reality?

**Mr Morris**—We did not but, perhaps not surprisingly, local government councils did not focus on new responsibilities for which they had been compensated. They tended to focus on the other side. In the context of our hearings, the local government associations were in a very difficult position because they had to reflect the view of the entire local government sector in the state, and the local government sector was essentially a loose confederation of warring tribes, so they tended to be fairly constrained in what they said to us. I cannot now recall any such discussions.

**Ms BURKE**—Given that sort of thing and looking at the submission by the City of Newcastle, which has tried to quantify this in an audited fashion, did you look at something like that along the way? Given the narrow terms of reference you were working in, was it something that you would do? If not, is there benefit in doing it and, if so, who could actually perform such a task?

**Mr Morris**—It is not something that we did. Conceptually, there would certainly be benefit in doing it. I would not underestimate the difficulty of coming up with something that was actually meaningful. You would have to be very careful that you did not end up with numbers which were spurious and which would encourage you to think that you had a good quantification when, in fact, you did not.

**Mr Searle**—It would be very difficult, for example, to differentiate between the financial impact of councils taking on additional responsibilities because they wished to or the community wished them to as against true cost shifting by another jurisdiction.

**Ms BURKE**—Getting them to agree on that would be a good one, too.

**Mr Morris**—Conceptually, it would be very valuable. In practical terms, it would be very problematic. I offer no suggestions at all as to who might undertake the task.

**CHAIR**—Professor Sansom, the Director of the Centre for Local Government, recently stated:

The result of limited revenues is that new local government functions have been funded by cutting back on traditional areas, chiefly roads and asset maintenance. This now threatens a crisis in infrastructure provision and renewal. Available figures suggest that nationally local government is under-spending on maintenance by at least \$1 billion per annum—and that excludes a further shortfall in providing new or upgraded infrastructure.

Do you agree with that basic assessment, or is that overstating it?

**Mr Morris**—I cannot comment on the \$1 billion, but I will come back to that in a minute. The sense and direction of that observation is totally consistent with our own observations and the findings in our review. It is unquestionably the case that local government is increasingly funding its involvement in new—that is, new for a local government—areas of responsibility by cutting back on its traditional areas, particularly the maintenance of its infrastructure, and particularly roads.

We did not calculate the order of magnitude but, presumably, it is possible to get some bearing on that by looking at the figures that we do have—the declining proportion of expenditure in that traditional area. If you then extrapolate not a declining trend but, say, a constant trend across those 20 years, you would then be able to calculate the gap in dollar terms. I would not be at all surprised if it were of the order of magnitude of \$1 billion, but we did not do that. You could do some reality checking of that figure by doing something like that.

**Ms BURKE**—The indication was that they are not spending money on the roads, and we have the new highway rule and the concern about how to get the roads up to a sufficient level so you will not get sued if someone falls over in a pothole. Did those sorts of issues come up during your inquiry? If so, how do we ensure that councils are spending the money being directed to them via the commissions, as in your recommendations, on where it needs to go?

**Mr Morris**—Councils are certainly not relaxed about the declining expenditure on asset maintenance and road maintenance. They are very concerned about it, but the message they gave us is that they are between a rock and a hard place. They have to make decisions that are sensible politically as well as sensible in terms of policy, so they are certainly not relaxed and there is a great deal of anxiety about that. The local roads funding is, of course, for roads, and as I think you heard earlier this morning no-one suggested to us that the amount of money that councils spend on roads is less than the roads funding. In every case there was compelling evidence that it is in fact much more, but the general purpose pool is untied revenue assistance and is available to councils to spend as they will. They are clearly taking slabs of that and spending it on roads, as well as their local roads money, but they have all the other things to do as well. If someone were to decree that they needed to spend a certain proportion on roads, that is only going to exacerbate the problems that the councils face in providing services in other areas.

**CHAIR**—Mr Searle, do you want to identify that reference in the annual report?

**Mr Searle**—There is no consolidation in the annual national government report that consolidates the findings of the seven local government grants commissions but, between me and DOTARS, we will see that the committee is provided with that.

**CHAIR**—Thank you; we will look forward to that.

**Mr KING**—We are talking about paragraph 29, page 40. It is very important because we are talking about the equity purposes of the financial assistance grants and there is a concept there about the average level of services of LGBs throughout the country. You have said it is in a report which tells us precisely what that means, and I would like to see that page of that report.

**Mr Searle**—It is certainly available in financial terms, and we will be able to provide that for you in financial terms.

**Ms KING**—What does ‘in financial terms’ mean?

**Mr Searle**—We will, for example, be able to calculate the Australian average per capita expenditure by local government on road maintenance and the per capita expenditure by local government on health and welfare functions.

**Mr KING**—With the greatest respect, that is not what is intended by the second sentence of paragraph 29. You are speaking about the concept for the purposes of equalisation principles of the average level of services provided by an LGB in this country. That is what I am interested in because it is helpful to us to understand the average level of service to be expected by you and other relevant funding authorities of local governments today. That is what I am interested in. If it exists, fine I would like to see it, if it does not then let's hear it.

**Mr Morris**—In that case, you will have to settle for seven lots of average levels of service because each of the states and the Northern Territory provide services at different levels and there is a section in our report that indicates that, in areas like spending on health, education and welfare, the differences between state A and state B are absolutely enormous so a consolidated figure for Australia in that sense would be meaningless and the funds are not distributed on a national basis. They are distributed on a six state and one territory basis.

**Mr KING**—I would suggest that the statements you have made at paragraph 29 are fluid to say the least.

**Mr Morris**—No, those statements are directed at each of the state local government grants commissions.

**Mr KING**—Then that is what I want to see.

**CHAIR**—Thank you for coming before the committee. We commend you on your report.

**Proceedings suspended from 12.21 p.m. to 1.11 p.m.**

**SMITH, Mr Gregory Edward, General Manager, Yass Shire Council**

**CHAIR**—Welcome, Mr Smith. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives. The giving of false or misleading evidence is a serious matter. After that rather blunt introduction, may I again welcome you and ask if you would like to make a brief statement to the committee before we proceed to questions.

**Mr Smith**—Certainly. I will start with a strategic overview of how Yass Shire Council see the issues. Firstly, we think there is a need for an understandable, known, acceptable, equitable policy framework for the government delivery of services, and by that I mean the three tiers of government. There is a strong need to have some sort of agreement in place across the three tiers of government. It is well known that both federal and state agencies identify specific programs or issues from time to time and make some decisions about how they might want those to be implemented. Usually that takes two forms. One is that they will provide some initial funding to kick something off and somewhere down the track that funding will decrease or disappear and local government will be left holding the baby. Otherwise, they will go down the legislative path: they will create a new piece of legislation that reinforces what they want to do. That does impact and has impacted directly on local government. In a number of cases, as I think you have heard, the funds do not necessarily follow.

Part of the issue is that there is probably a lack of recognition of local government by the other two tiers of government, being the federal and state governments. We are all aware that local government is a creature of the state. In our case, we exist under a piece of New South Wales legislation. I touched on an example of a policy framework at the start of my statement when I referred to some formal set of protocols, procedures, principles and partnerships between local, state and federal governments. I believe that down in Tasmania there is a good example, of which the committee would probably be aware, where the Premier himself negotiates arrangements or partnerships with individual councils. From the information I have, that seems to work pretty well.

Linked to that, I think there is an issue which needs to be addressed, which is probably not identified anywhere, and that is a performance issue. Again, that could apply to the three tiers of government, but particularly in local government there is no real objective or accepted method for measuring performance within the industry. I think there are opportunities to explore that and to develop some performance measures that would help clarify and possibly focus the roles of local government and then specifically the outcomes that are desirable by the community. I think we all need to recognise that there is a need and a willingness to be able to, or to be allowed to, let go of some responsibilities and that should shift, where appropriate, between the different levels of government. I know the terms of reference do not talk about going upwards, but I would suggest there are probably a number of services that could probably be better handled at a national level rather than at a state level. They are mentioned in my submission. The main reason for that is obviously to maximise resource use by all governments if it is going to provide a better outcome for the community.

I have to mention that the distribution of government funds needs to be consistent across all levels. In our case, the financial assistance grant needs to be a progressively based grant rather than what is in place at the moment because it is not attached to, or aligned to, any of the more progressive taxes whether it be the GST or personal income tax—so I think there is a need to reconsider that. In terms of a strategic point of view, that is the council's position.

I have a couple of additional comments relating specifically to the submission. In the introduction we talk about a population increase of 8.5 per cent and that should read 12.5 per cent from 1996 within our shire. The Yass Shire Council has a number of issues facing us now and in the immediate future. I do not know whether anyone was watching the regional ABC last night or listening to the radio this morning, but I think there might even have been something in the *Canberra Times* about the urban development on the fringes of the ACT. There is a new proposal over on the southern side around Queanbeyan and there is also a proposal that has been on the books for about four years at Gooroman-jeir which is just north of Hall and mainly in Yass shire. That is creating a number of development issues at the moment. It is probably one of the main things that we need to deal with in terms of the demand on the land, the environment and also the services that we provide.

At the moment an unreasonable financial burden is placed on current ratepayers to try to deliver that additional infrastructure which is required and requested by the people who want to move in. Specifically, the major issue that is not just for us but for the immediate region is water supply to the new urban growth areas. That is probably a reasonable summary of the issues that we face. It goes without saying that in the normal day-to-day operational issues we are struggling to find the dollars to do everything we are required to do and the community wants us to do.

In terms of the roles and responsibilities of local government, the committee has an opportunity to provide an outcome that I believe would add some credibility to the inquiry process. That outcome is for local government to have the ability to work on an equal footing with state and federal government in terms of determining roles and responsibilities that are sheeted back to local government. I believe that currently there is really no clear alignment between the roles and responsibilities in the funding that we have at the moment. That is a result of a number of legislative changes that have been brought in by both levels of government and that have ended up with local government having to implement them. As a result of that, it became a priority at that point in time. Resources are short, and the natural thing is to say, 'The only flexible funding area is the capital works area,' so we decrease our capital works and put in the new programs, and our infrastructure goes downhill.

In relation to funding arrangements, while this not new, there do appear to be two sets of rules—one for local government and one for state government. We have rate pegging, which says, 'Thou shalt increase rates this year by 3.3 per cent.' One of the state agencies marches in and says, 'Here's your invoice for the service: an increase of 13.3 per cent.' That is the New South Wales bushfire brigade. That is a straight example of there being two rules, one for local government and one for state government. It is probably a very blatant, obvious example of cost shifting.

The other issue that I raised in the submission is that there is—particularly in rural Australia, I believe—limited capacity to develop or grow new and additional income streams. I know

there is pressure on us from all around the place suggesting that we should be looking for other sources of income but, when you have a rural community of 4,000 or 5,000 people, in terms of the industry, opportunities are very limited to try to get more income out of such a small community. Maybe, as an option, federal, state and/or local governments could look at commercialising some of the intellectual property products that we develop—systems, procedures and things like that—which we as a council probably have not recognised as possibly being marketable products out there in the real world. So maybe there is an opportunity there.

In our case, I mentioned earlier that, in terms of developers, it is basically impossible for us to justify setting fees that are going to recover the full capital costs of infrastructure as the shire grows and develops because people just cannot afford to pay for it. One example is the exercise we did recently in terms of road infrastructure in the Murrumbateman precinct, which is basically the precinct immediately abutting the ACT. There are about 180 kilometres of unsealed road there, and it would cost us in the order of \$50 million to seal that. That is just an example of the cost in bringing that infrastructure up to speed.

With reference to your third term of reference about developing opportunities on a regional level, a classic example is a Plan First new state initiative. We do not have a problem with the concept in terms of what they are trying to do. They want to roll it out, but have we seen one cent in terms of implementation? No, not at this stage and we are not sure when that may occur for our area.

**CHAIR**—Could you expand on that, please, Mr Smith?

**Mr Smith**—Plan First is a PlanningNSW policy change where they are developing a fully integrated planning approach from a state level to a regional level to a local level. One of the things they are going to put in place is a regional plan that may cover 20 or 30 council areas. The areas have been drawn up based on communities of interest. For example, in our area, we are the Capital Hume area which follows the Hume Highway out of Sydney all the way down to Canberra and which includes the councils that relate to that. One of the issues is that we have to put in a regional plan and I suspect that that will be a tool by which priorities in terms of development may be assessed in the future. So, for us, it is an important planning instrument to have in place.

Another example of working together on a regional level is the six or seven councils that have come together to develop a regional waste disposal service at Bald Hill. It is a big hole in the ground and we need somewhere to put our rubbish. At this stage, a lot of work has been done in developing agreements and the service itself, but no government funds have come forward to provide any assistance in relation to that matter. That is a direct result of the state government's Waste Minimisation and Management Act 1995, which encourages us to reuse and recycle our waste or to get together.

Regarding item 4 of your terms of reference, the trends in local government in terms of the impact are financial but, in reality, local government is simply absorbing the additional workloads and prioritising and shifting priorities between the demands of the community and the governments. We have always got two or three balls in the air at one time, depending on who is talking to us or putting pressure on us. We seem to be continually chasing our tails to satisfy the people who are placing those demands on local government. As a result, we have an uncoordi-

nated, unplanned, unfunded process of delivering services to our community. At the same time, the community has increased expectations about what it is that we should be doing.

To give you an idea of the impact of the costs, I have done a quick exercise based on the 25 items listed in our submission that we have identified as having cost impacts. I have been able to put some very conservative estimates against 15 of them, and they basically relate to the state government's push to increase the responsibility on local government. The total figure represents about seven per cent of our operational income. That means that those 15 items sitting there have added about \$1 million to our budget on an ongoing basis. The one-off implications are mainly capital works type projects. Again, it is not comprehensive, but about \$900,000 has been added to our budget over the last few years to provide or deliver on these legislative changes.

There are two views on achieving rationalisation of the roles and responsibilities between the levels of government. One is that there is an opportunity for local communities and local government to take a greater role in the delivery direction of a number of state and federal services within our shires. They involve education, health, policing and things of that nature. I am not suggesting that we take over or dismantle the systems, but I am saying that I believe there is an opportunity for local communities to play a much greater role in providing some direction and some input into how those services should be delivered. At the same time, I believe there are a number of state services that should be tackled from a federal level. We should have some national health systems, some national education standards and some national policing systems rather than all these being conducted at state and territory levels. I think there are some significant benefits in attacking those at a national level.

In New South Wales, there has certainly been a lot of talk about reform. Maybe the inquiry could look at what reform options there might be to deliver services better at the local level, bearing in mind that there is a broad range of capacities within local government right across Australia from a few hundred up to hundreds of thousands in terms of population. From the New South Wales perspective, I think there are a number of options that need to be developed. If the committee wants to hear that, I am happy to talk about it. If not, I will leave it there at this stage.

Coupled with that reform have been what I call fads that have come in and out of the industry over the years—things like continuous improvement, total quality management, benchmarking, zero base budgeting, balanced scorecards, best value and triple bottom lines. You sit there and think, 'I wonder how many resources have actually gone into having a go at those and what has really come out of it.' To me, as I said earlier, there is still no standard measure of performance in local government, yet all these things are meant to provide some sort of performance measurement. But there is none there. I think I might be able to go some way towards sealing the 180 kilometres of road in Murrumbateman precinct if I had those resources.

**CHAIR**—Thank you very much for giving us a good practical assessment of what all this means. I will kick off with a serious question. Having been caught so many times in accepting the funding for three years for these new programs, what is it that motivates you to keep accepting them, knowing what is down the track?

**Mr Smith**—I will give you an example. Recently, there was a grant on offer for road safety officers. It was a three-year grant, initially—a three-year program which started out at 100 per cent and went to 75 per cent and then 50 per cent funding over the three years. After the three years, funding runs at 50 per cent. Yass shire was reluctant to take it on, for exactly the reasons you have just said. But what convinced us to take it on was that the RTA was saying to those councils which do not have RSOs, road safety officers, ‘When we come to look at your funding program, this may influence how the grants are distributed, because road grants are not just about building roads but also about education about and use of those roads.’ So that is usually the reason we take them on. But there are other times when we take them on because there is a genuine need, and I am not going to argue with those. But, generally, that is the rationale.

**CHAIR**—So you would summarise that as blackmail?

**Mr Smith**—Let us put it this way: if we take it in a positive way, it is an incentive.

**Mr NAIRN**—The Commonwealth Grants Commission, in their review of the operation of the Local Government (Financial Assistance) Act 1995, as part of their recommendations or conclusions recommended that there be three pools of funding, one for each of the Commonwealth funding objectives. One pool they called the per capita pool, which would be distributed on a population basis; there was a local roads pool, which would be distributed according to relative road needs; and, thirdly, there was the relative need pool, which would be distributed according to relative need, based on equalisation principles. Do you have any comment on that as far as Yass council is concerned?

**Mr Smith**—With respect to the criteria they use to distribute the FAGs now, I have looked at it several times over the last 20 years and, in terms of fairness, there is not too much you can argue with. Another set of guidelines with the appropriate criteria will probably deliver the same result. I will go back to what I said about how the quantum is determined. I think it is just as important as how it is distributed, because if we have got the same amount of money and we want to distribute it in a different way we will get the same result.

**Ms BURKE**—You do not believe the current FAG level is sufficient to sustain your council or any other local government within New South Wales?

**Mr Smith**—It goes some way towards sustaining our organisation—it certainly does not go all the way. It would help. I understand that it used to be about two per cent of personal income tax and the government somewhere along the track thought that this could get out of hand or made some decision to drop it. I would think that if we were still under that regime today, I do not know if we would be having this inquiry.

**Ms BURKE**—You would get more than the minimum in Yass?

**Mr Smith**—We do, but in terms of population we are at the lower end for our population. We are seen to have an advantage because we are adjacent to Canberra when, in fact, one could question that.

**Mr NAIRN**—We have established that New South Wales is now the only state that has rate pegging. If it was not in place—and I know you have only been at Yass shire for a reasonably



short period but I refer to your experience there and in Goulburn and Cooma prior to that—over the last few years, for instance, what difference do you think it would have made to councils? Councils would have to weigh up the political aspect of increasing rates but do you think that would have occurred and councils would have been in a better position?

**Mr Smith**—My view is that in rural Australia the answer is probably no. In fact I think they probably would have put it up less, simply because of the economic situation with farmers. I know a couple of the councils I have worked to in the past were reluctant to take the full increase and in some cases they didn't. That is a view around rural Australia in terms of their major rate income coming from the farm. We are in the middle of a drought now and if you saw the program last night about Walgett and what is happening out there, that council could ultimately become bankrupt due to the economic conditions as a result of drought.

My personal view is that it may not have taken the full amount. What it would do though is that it would have an impact where the local government would have to better justify their expenditures and the programs and services they want to put in place. For example, if Yass shire wanted to put the rates up by 10 per cent and if we used some benchmark such as the CPI and set that as the minimum that needs to be put up to cover our day-to-day operating costs, if that is at four per cent and we wanted 10 per cent then the question should be asked, 'What are we using that six per cent for?' If that was communicated to the community and they had the opportunity to comment then I think that is where the opportunities would arise, whereas at the moment you have to get the approval of our state minister for anything greater than the rate pegging level.

**Mr NAIRN**—How often is a rise above the rate pegging approved? It is not very often, as I understand it.

**Mr Smith**—From what the minister has been saying, if you have got a legitimate project that has got community support, that special variation will be approved. But in the councils I have worked in, we have found that if we want a small amount of money—for example, we want to put in a new toilet block or put up lights for tennis courts or upgrade the oval, which might cost 50 grand—we might put something forward and the minister says, 'That's insignificant,' so it will not be pursued. But for the local community it is important and the only other option is to borrow money and pay it off over a period of time. Then we get into another debate about who should pay for the infrastructure.

**Mr KING**—How many times did you apply to exceed the cap in the 1990s?

**Mr Smith**—In the three councils that I worked for in the 1990s, we applied twice and were successful twice; once at Cooma-Monaro and once at Goulburn.

**CHAIR**—State governments have always tended to resist being benchmarked on the performance of local government. Would you see some merit in the benchmarking of local government performance?

**Mr Smith**—Yes, it has merit. In fact, we have spent \$3,000 to participate in a national benchmarking program for four services: garbage, parks and gardens, street sweeping and roads. That has been put together by a firm in Victoria. I believe that benchmarking has some

merit, as long as we are comparing apples with apples. That is one of the problems in New South Wales. There is a set of performance measures published by the Department of Local Government each year, but they are only guides and are really unsubstantiated; you cannot compare council with council. I cannot remember the title of it, but it is a publication that is released each year.

**Ms BURKE**—The Victorian councils participate in a survey system—

**Mr Smith**—They do.

**Ms BURKE**—and they get benchmarked on the basis of the survey. Isn't that a bizarre concept? Councils, theoretically, comprise elected representatives who go to the voters every four years, I think, in New South Wales, to say whether or not they have performed well. They say, 'This is our performance criteria. Those are our state colleagues' performance criteria.' Theoretically, local government's performance criteria—

**Mr Smith**—Theoretically, you are right. Practically, I do not agree, simply because we have just finished the last financial year, we have implemented our management plan and for the last number of years of the report being written there have been some productivity improvements within the council. How do they justify it? If someone asked me, I would be struggling; I could probably mention a couple. But, politically, you are right. Operationally is where the problems lies, because we cannot—

**Mr KING**—Did you have a five-year management plan?

**Mr Smith**—We currently have a four-year budget and a two-year operational plan.

**Mr KING**—But is it a five-year management plan?

**Mr Smith**—The budget is for four years, but it does not have the details of projects and things beyond two years.

**Mr KING**—So the election of the councillors probably does not make much difference, does it?

**Ms BURKE**—You cannot say that! Even I would not ask that!

**Mr Smith**—The elected councillors play an important role in developing the management plan process.

**CHAIR**—Well said!

**Mr Smith**—One of the challenges for us as staff members is to get the councillors and communities understanding what is actually in there. I have a concern that it is a staff document, and one of the things that we are trying to do is to get the community and council involved in developing that.

**Ms BURKE**—Do you therefore have a problem that FAGs are annual, if you are budgeting out four years?

**Mr Smith**—Yes. I mentioned in our submission that it is ironic that the lowest level of government has to put in place five-year plans and long-term strategic plans, but when we go to a state and federal government level it depends on the political will or sway at the time as to which way things go.

**Mr KING**—We are looking at a 25-year ageing program at the moment.

**Mr NAIRN**—You cannot say what the financial assistance grants will be in four years time, but you have a pretty good idea what they will be because they are based on a particular formula.

**Mr Smith**—Yes. Our formula is no more than last year; in fact, we were budgeting for a decrease this year.

**CHAIR**—I wonder whether you would favour a form of accreditation. If so, would you see that as a way of delivering fully funded services at a local government level on behalf of other tiers of government on an ongoing basis?

**Mr Smith**—I have no problems with that at all. As long as it was open and objective, with everything on the table, it would be a pleasure to do.

**Mr NAIRN**—Can we go through the practicalities of some of the infrastructure? You talked about a possible new development north of Hall. If there is a new subdivision in your area, the developer basically builds the subdivision—it is a cost to the developer. Let us say it is a subdivision for 20 lots or whatever: the developer pays the costs of all the roads, water, sewerage—if all those things are available to be put there—and they provide a section 94 contribution towards open space and other matters. With regard to head works, if it requires an expansion of the main trunks or whatever, they pay the actual cost of that or a contribution. How does that funding aspect differ from a council in the city area where, for instance, water and sewerage is not the responsibility of the council? It is the responsibility of the Sydney Water Board or whatever they are called these days. Could you make some sort of relationship between that, because my experience over a number of years is that country councils come off second-best as far as that sort of funding is concerned.

**Mr Smith**—In terms of the development of the subdivision and the infrastructure required—roads, curve and gutter, and things like that—yes, they pay for it, but it becomes our asset, so there is no longer term commitment to maintenance. Some would argue that there are additional rates, so the rates will go to maintaining that asset but, when you have a replacement of things over 20 to 25 years, there is no capacity to put the money away to do the replacement. It becomes a liability, in effect, even though our accounting colleagues have it on our balance sheet as an asset, which I find quite intriguing, but that is another story. In terms of the section 94 issue, the capacity of councils to collect contributions—and they are contributions; they are not full costs of the impact on the current infrastructure—is based simply on the demand for land in that area.

In our case, for Murrumbateman and precinct, we have recently increased our section 94 road contributions; we have not yet got section 94 contributions for fire and community services, but we are working on that as a priority. That has increased, and that is a contribution to the impact that that development will have on the other road network. If you go to the other side of Yass, the road contribution is \$15,000. If you go to the other side of Yass, to Bowning and Binalong, the contribution is \$6,000, and people question whether they will subdivide because the demand is not there. When you transfer that to the city, there is always demand. That is the dilemma we face. It is always a trade-off by saying, 'Okay, we'll reduce the contribution by a third'—for example, car parking space in the CBD is only about a third of the cost of providing a car park.

**Mr KING**—Your current budget is \$20 million. Of that, about what percentage is FAG money?

**Mr Smith**—Our FAG grant is about \$1.8 million.

**Mr KING**—And what percentage comes through the state grants commission?

**Mr Smith**—There is no state grants commission.

**Ms BURKE**—That is the state grant.

**Mr KING**—Do you get any direct money from Commonwealth programs? It was indicated that something like two per cent—

**Mr Smith**—In that budget, outside water and sewerage, there is probably \$120,000 to \$150,000 of grant funds for heritage works, environmental works and things. It is not a big amount.

**Mr KING**—What about Roads to Recovery? What is your percentage there?

**Mr Smith**—That is a good question. Let me check. It is zero.

**Mr KING**—Why is that? Didn't you apply for it?

**Mr Smith**—It means we have not got it.

**Mr NAIRN**—It would be about \$1 million over five years, wouldn't it?

**Ms BURKE**—It wouldn't have been when you did that plan. That is probably the problem.

**Mr Smith**—Maybe this one has not been updated.

**CHAIR**—Can you take that on notice?

**Mr Smith**—I certainly will.

**Mr KING**—Those moneys that I just indicated are the total of the Commonwealth assistance that you get, are they?

**Mr Smith**—Yes.

**Mr KING**—What percentage of your income is from a state source?

**Mr Smith**—We get state funds to run the two community services, which are the family day care centre and the home living support service. The home living support service is about \$170,000 and the family day care centre is about \$220,000. The other funds from the state are through RTA, specifically for roads, and they will depend on what projects are priorities in our shire for the state government.

**Mr KING**—Approximately what is the amount?

**Mr Smith**—Approximately half a million dollars.

**Mr KING**—So you are getting substantially almost twice the amount of public funding from the Commonwealth that you are from the state. Does that sound about right?

**Mr Smith**—I cannot think of any other state funding.

**Mr KING**—And this is even though you are a state instrumentality in the sense that you are not—as the fiction would have it—an independent autonomous body, but a construct of state legislation, aren't you?

**Mr Smith**—We certainly are. You probably need to take about \$100,000 in pensioner rates subsidy off that.

**Mr KING**—I saw that.

**CHAIR**—How long have you had that in place?

**Mr Smith**—Ever since I have been in local government, which is since the early eighties. I do not know how long it has been in place.

**Mr KING**—You mentioned the Murrumbateman road. Are you suggesting that is a priority? Were you talking about \$50 million for that?

**Mr Smith**—There is a demand within that area—and that demand is basically coming out of the ACT—to improve the road infrastructure. We did an exercise to find out how many kilometres of unsealed roads there are in that area. There are 180 kilometres of unsealed roads in the Murrumbateman precinct, which would cost us about \$50 million to seal. It is not a priority; it was just an exercise to establish what it would cost.

**Mr KING**—Has the council sat down and prioritised its spending requirements? It does not sound as if it is a very disciplined approach to your spending priorities.

**Mr Smith**—Yes, we have. What do you mean when you say it is not a disciplined approach?

**Mr KING**—I am a bit curious. You seem to be suggesting that because you have an unsealed road in your area you need \$50 million to get it sealed.

**Mr Smith**—That is the reality.

**Mr KING**—Have you considered whether that money really is necessary? What is the usage rate on that road?

**Mr Smith**—That is part of the criteria we use to determine what roads will be sealed and what roads will not be sealed. In that case it was an exercise to demonstrate to the council that potential demand has been placed on us by the community in that area. A lot of people are moving from Canberra to rural retreats. A few more cars go past and a bit of dust comes up, and the first thing they want is a sealed road.

**Ms BURKE**—Isn't it all about the things we talk about in relation to managing the expectations?

**Mr Smith**—That is exactly right.

**Ms BURKE**—Some of the councils in WA told us—they would not go on the record—that their council will not seal the road but next door's will. With respect to the 20 cars going down the road they will seal the road because of the community impact and expectation. They say, 'I am the local councillor and I am far more exposed to my community'—more exposed than we are as federal members or our state colleagues are.

**Mr Smith**—We have just developed some criteria which we are going to use to prioritise the spending of resources on upgrading roads. So there will be a planned approach to it, but the reality is that there will never be enough money to seal all the roads. I agree with you that not all roads need to be sealed.

**Mr KING**—I was impressed by one submission from ratepayers which was to this effect: councils actively subsidise through rate income many service users without the benefit of a formal consideration of whether those users have any special claim to subsidy. As the general manager of your council do you impose that discipline on your councillors, or do you not exercise that sort of discipline?

**Mr Smith**—I do not understand the question.

**Mr KING**—Have you worked out what sort of subsidisation there is of the services that you provide? You mentioned 33, I think, in the report.

**Mr Smith**—Not objectively but I have done it at a previous council.

**Mr KING**—This subsequent comment was made in the submission:

We see no evidence of any strategic effort to reduce or minimise the financial burdens that are imposed on councils from outside.

I think what was being referred to was where a state government imposes a program on a council, gives it seed funding for one year but then does not provide seed funding for subsequent years. Councils are not showing strength of purpose in putting their hands up in the second year and saying, 'Look, this is outrageous. We shouldn't be having to do this.'

**Mr Smith**—Maybe our submission will show that most of the issues that we have highlighted emanate from a piece of legislation. If we do not follow the legislation—

**Mr KING**—You have no choice, in other words?

**Mr Smith**—That is exactly right. That is the case in the majority of circumstances. Where we have a choice we make the decision.

**CHAIR**—Mr Smith, we have had a good innings. Thank you very much for coming along, and for your submission. You will get a copy of the *Hansard* in due course. If there are any errors of fact, feel free to correct them.

**Mr Smith**—It was a pleasure.

[2.00 p.m.]

**WILKINSON, Mr Brian Arthur, General Manager, Crookwell Shire Council**

**CHAIR**—Welcome. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter. Would you like to make an opening statement before the committee proceeds to questions?

**Mr Wilkinson**—Yes, thank you. Crookwell Shire appreciates the opportunity to be part of this hearing and to be able to make a submission, both in writing and in person. I feel a little underdone after Mr Smith, the previous speaker, who has covered a lot of ground with respect to local government issues. I thought he did a pretty good job and I agree with the issues that were raised in the conversation.

Crookwell Shire sees this inquiry as fairly relevant to the future government structure of Australia in a number of respects. There are numerous examples—and you have probably heard the ones that local government and others have made—of the cost shifting to local government that has occurred over the years. The submissions I have seen on the web site certainly include some of those. I do not propose to go into those or provide any specific information in that regard because of that. However, there are a number of things that I would like to raise that might promote some thought from a different point of view.

Firstly, one issue that has come up in recent times, and the previous speaker mentioned it, is in relation to legislation. There is a current fairly simple example at the moment—it might not be direct cost shifting—with respect to rural fires and the environmental assessment legislation that has been put through the New South Wales parliament. This is a reaction to the bushfires of some 12 months ago. In quoting this example I am not assessing the need for or the validity of the legislation but rather the impact that that type of legislation has on local government. Although it is state legislation it is certainly going to have an impact on the planning legislation of councils, and that affects resources and so on. It is a fairly simple example.

Basically, on 1 August this year the state government introduced a new act that has a number of implications for many councils, particularly with respect to rural land prone to bushfire hazards. The act basically overrides planning legislation as such and requires all new development applications before council to take into account bushfire protection issues. As part of that process, council is required to prepare a bushfire prone land map—some resources are obviously going to be involved there. We have 12 months or so to do that. There is an existing bushfire hazard map provided by the rural fire services. That identifies the rural land et cetera that may be more prone to bushfires.

In the case of any new subdivision the council planning officers—in Crookwell we have two: one senior officer and one assistant officer—have to go through a process of making sure the legislation is complied with in regard to those bushfire issues. Obviously there is an onus of diligence and care there that can come back to bite you later on, so it is not a matter of doing it



as a token gesture. You have to be fair dinkum about it. Again, resources will be needed there, and there will be some training issues. I am not arguing about the actual intent of the legislation, but in this particular type of example tasks get passed down to local government and there are no resources passed along with that. You are given the legislation to implement and away you go—that is the expectation.

There are also some issues with regard to other planning instruments that the council has to undertake with regard to local environment plans and section 149 certificates, which are certificates issued to describe land when people wish to purchase it. The certificates have to have added information with regard to bushfire-prone issues et cetera, so it will change the way we do things with respect to some of our planning issues. It will require extra resources; it will change our training methodology in that area, but, as I said, there are no extra resources to go with it. That is a recent example, which is why I thought I would quote it today. A number of other issues have been raised by previous speakers and are in the submissions that have been put to the hearing.

One of the focal points of Crookwell shire is the issue of cost shifting. We are a shire with a population of only about 5,000. We are only an hour and a half out from Canberra, north-west of Goulburn, off the beaten track a little—if you like to look at it that way—but not on a highway frontage as such. The council has an expenditure of \$12 million and, over recent years, the expectation on the council is that we get involved in more community growth and community development issues. So I think one of the focal points that the council wants to put forward is that there needs to be a bit of a rethink about the provision of all government services and facilities. I think that the changes that have happened over a period of years represent the opportunity for this inquiry to raise the issue that we might need to look at things differently. We might need to look at the way they have been done for a number of years and the fact that they get shifted on to the local government. That is our biased opinion, in some people's view. But I think we are the end of the line from an interior government point of view. There is a tendency, on occasions, for us to be thrown the ball to run with when it should be more of a whole-of-government approach.

Linked strongly to the need to review the provision of services and facilities by government, I believe, are the issues of, firstly, recognition of local government as a tier of government—a fair dinkum recognition—not just the use of it to service community needs as required. Also, I think there is a need for meaningful and ongoing discussions between the three tiers of government to consider the roles and responsibilities of each tier in relation to services and how they are provided to the community.

The defining and review of roles and responsibilities, in our view, would give a starting point to reviewing where we have got to at this point in time with regard to government funding of services et cetera and also enable the funding for the various roles to be looked at again and then maybe rationalised in some respect to provide better value services. While looking back at some of the examples that have happened and focusing on those may justify the broad statement that cost shifting has occurred in local government, it will not necessarily resolve the future issues of sound governance across Australia and also the provision of future services and facilities to the community. What we are saying is that we do not have a problem with the fact that there has been cost shifting under local government—and I think that can be proven and probably has been proven by others—but we think there should also be an opportunity to take a look at the

future and how we can rationalise things to do things better as a combined three-tier government rather than as separate entities.

We believe also there is a real need for integration of services that are provided across the various tiers of government. To some extent, the way we do things now at a governance level appears to be a bits and pieces approach. That does not necessarily provide good cost delivery of services, nor does it provide a coordinated or defined approach to meeting current and future community needs. This often results in some government programs, local government included—some of the issues discussed with Mr Smith earlier—being some sort of a patch-up rather than actually solving some of the issues. I believe, and so does council, that if there is a proper and meaningful review with the right intent, there may be a better, coordinated governance approach and a better way of providing those services. In that respect, we believe also that this inquiry should look at having some longer term project to continue that integration and for better provision of services. Mr Smith mentioned the circumstances in Tasmania where partnerships have been developed between the state and local government areas.

As you probably realise, local government is regarded as a grassroots tier of government. One of the issues discussed with Mr Smith—sorry to keep referring to that, but it is certainly relevant—is that, because of the local contact between councils and the community and the fact that they see the money they pay for rates, people tend to criticise council services a lot more than services that are paid for through income tax and payroll tax. They see rates as a direct tax on them, and they want to have their input into that. Local government can certainly do a lot better in consulting with communities and providing services they actually want.

Touching on another of the points that was discussed with Mr Smith, councils that go to their communities looking for increases above the rate-pegging limit for specific issues go a long way towards being able to create constructive results with the community if they can get over that negative perception. In the main, if they can explain and have a strong rationale as to why they are doing things, they can get the support of the community. It must be recognised, though, that local government areas—certainly across New South Wales and, I dare say, across Australia—are at different stages of development in their management practices, political acumen et cetera. So each circumstance cannot be seen the same way; there are going to be varieties across the board. But it is important to recognise that local government is the grassroots tier of government and that communities will always want it, even though they criticise it quite strongly. In regard to that, recognition of local government by federal and state governments would, I think, help to overcome some of the cynicism that may currently exist.

I mentioned earlier that local government and governance have changed over the years. The range of activities undertaken by local government is expanding rapidly. Traditionally, local government was associated with the three Rs—rates, roads and rubbish—and the property based services. Over the years, that has diversified into a much wider scope of things relating to urban planning, recreation and culture, human services, economic development et cetera. This diversification is certainly a result of community demands, expectations and needs and of legislation changes and shifted responsibilities between tiers of government. But, in most cases, the diversification has not resulted in an increased revenue base for local government. In some respects, the changes can be regarded as a result of needs and demands not being met by other tiers of government.

Changes have occurred in society over the past century, and that means there have to be changes in the government's service delivery and programs. That is why we think there needs to be a review at this stage—to look at where things are now and where they might go in the future, rather than letting the future be dictated by what has happened in the past and how it has been built up. Certainly, without a broader financial base and increased recognition and acceptance from other tiers of government, local government cannot be expected to meet the new legislative requirements, continue to provide additional services as they are demanded or requested by the community, and increase the provision of community infrastructure.

Councils have to make some difficult decisions at a local level about whether the need is real and whether the scope of the need is such that moneys should be put into it at a local level. That is a political decision which is sometimes hard. In a small community like Crookwell, for instance, the percentage of people demanding services is obviously a bit different from that in Yass or Queanbeyan. Those decisions have to be made, and it is very difficult in some circumstances. Without the assistance of other tiers of government, things will not be achieved.

It is true that state and federal governments provide grant funding for regional community, economic and other issues. However, we believe that those grants do not meet all the needs. We know that it is not going to be easy to resolve, because it has to come out of only one bucket of money—government revenue—in the end, and it is going to be very difficult to get that across the board. So we believe there has to be some sort of rationalisation to do things better, rather than look at reducing services. A lot of those state and federal government programs that we get funding for have a community development focus. We have to look at those sorts of government services and use them to the best of our ability. We are doing a bit at the moment with community development, economic development and so on to do our best to try to regenerate some of the stimulus in the community.

In saying that, I think some of those programs, if they were done on a state or a national level, could have a better impact and could probably be done in a more coordinated manner; albeit that communities get very parochial, like to have things done in their own area and in some respects do not take particular notice of what is happening in other areas. While the grant programs do provide some sort of team or combined approach it is the view of the council that the team approach needs to be taken a step further by having the three tiers of government undertake a review of the roles and responsibilities of future governments.

**CHAIR**—Mr Wilkinson, I wonder if you could wind it up because we are going to run out of time for questions. We have the written submission.

**Mr Wilkinson**—I would like to refer you to an article written by Graham Sansom, who is the Director of the Centre of Local Government at the University of Technology in Sydney. That article mentions the need to examine opportunities to coordinate service delivery via local government: the use of protocols and partnerships between local governments and states. The article includes the Tasmanian example that was mentioned. Therefore we believe that the issue of facilitating local government in a strategic way should be part of this review process.

We believe the issue of cost shifting is of high relevance to the future of Australia and it should not be looked at in isolation from its impact on the local government tier of governance

but across the board. We appreciate the opportunity to address the inquiry and we hope that some of the issues that have been raised can be taken on board.

**Mr ALBANESE**—Thank you, Mr Wilkinson, for the written submission and for appearing before the committee. I have a couple of questions to kick off. You have referred to the imposition, essentially, of state legislation and the impact it has on local government. You gave as an example the bushfire hazard legislation. Couldn't it be argued that that is a job, frankly, that local government should have been doing anyway and that the implications of local government not doing its job were that there was a great deal of damage and costs imposed not just on local government but on individuals, the insurance industry and state government? It could be argued that there was a potential for lives to be lost because local government was not doing its job previously and the state government has been forced into that position. How would you respond to that?

**Mr Wilkinson**—That is a view that could be taken but the point to remember is that 12 months or so ago the control of rural fire services officers was removed from local government and they are now employed by the state. So that is effectively a state responsibility. They are controlling those particular officers.

**Mr ALBANESE**—But wasn't that done in response to the fact that the state argued that local government, because of its nature in those particular areas, wasn't doing the job? Wasn't it taken over so that you could have a coordinated state response?

**Mr Wilkinson**—In some respects it comes down to an expertise level. The view that I was trying to put forward earlier is that the rural fire services do have that expertise and they are a state government authority. Now they are thrusting it onto local government who they indicated before did not have that expertise. Now they are asking us to pick up the expertise again and run with it. That expertise is not now there in full so we have to retrain and provide extra resources to do so.

**Mr ALBANESE**—I think this is a useful example for the inquiry in general. Isn't the result of the legislation on local government that when local government makes decisions regarding planning, zoning or approving developments in areas, it has to take into account what the potential impacts of bushfires are? Isn't that something that local government should have been doing previously—it is surely a commonsense approach—but was not doing? The evidence that it was not doing that was the fact that in January every couple of years we regularly saw a whole lot of homes, areas and property burning.

**Mr Wilkinson**—I certainly would dispute that is local government's fault.

**Mr ALBANESE**—I am not suggesting that it is your fault but I am suggesting that the impact of bushfires is something that you should have been taking into account.

**Mr Wilkinson**—It was being taken into account but now that it has been legislated for specifically and there are specific regimes in place, the extent to which they have to be carried out and the overlegislation of it—to some extent—requires those resources to be allocated. The point I was trying to make was that in relation to that legislation, if the state government or whoever had come to us with a combined program to implement the thing, to try to get the

councils to map the bushfire information properly and to get the staff trained appropriately, that would have been a better way to go about it. In this instance, it did not happen and this is what happens in other instances. The legislation gets thrust on us and the local governments get told to implement it and there is no assistance in developing the programs to carry it out.

**Mr ALBANESE**—What is the elected structure of Crookwell shire? Is it one ward? How many people are there?

**Mr Wilkinson**—One ward and nine councillors.

**Mr ALBANESE**—Nine councillors?

**Mr Wilkinson**—Yes.

**Mr ALBANESE**—How many votes do you need to get elected?

**Mr Wilkinson**—It would be in the order of a couple of hundred.

**Mr ALBANESE**—I am not picking on your shire, but when you have a quota of a couple of hundred votes to get elected that leaves anybody—any politician here would react the same way—open to populist concerns, including spending, that are not necessarily in the interests of the whole shire.

**Mr Wilkinson**—I have been at Crookwell since February 2000, so that is nearly three years. I understand that prior to that they did have a public discussion in respect of whether the number of councillors should be reduced. It was generally the view of the community that, because the shire has an area of 3,500 square kilometres, they believed that to represent that area they needed to have a spread of nine councillors and that is why they maintained it. In respect of the expenditure that is involved, the Crookwell shire councillors are not spendthrifts in that regard; they certainly do control the costs that are involved in servicing the elected representatives.

**Mr ALBANESE**—Do you think there is an argument for, or has there been any discussion about, potential amalgamations with shires next door?

**Mr Wilkinson**—Yes, there certainly have been some discussions, probably arguments and whatever. In respect of amalgamations, it depends on what you refer to as amalgamations. Crookwell shire very strongly believes that they need to retain their community of interest, and for good reason. In some cases, amalgamations will work and in some cases they will not. It very much involves that community of interest and where the community looks to for its main services and its main activities, et cetera.

**Ms BURKE**—What about economies of scale?

**Mr Wilkinson**—Yes, economies of scale are an issue but I think in some respects they would disfranchise some communities as well. The services they are being provided with now would not happen. As an example in support of what I am saying, over the last two years the council and the community have worked, with some assistance from state and federal government pro-

grams, to try to do some community and economic development programs. I believe that, in the case of an amalgamation or a bigger shire area, that would not have happened in Crookwell. One of the federal and state government aims is to try to get rural and regional Australia to do things better for themselves. You have to be careful with amalgamations: if you make the local government areas bigger and you lose that community of interest, those communities will not combine as well as they do now.

**Mr ALBANESE**—Do you have any sharing of resources?

**Mr Wilkinson**—Yes, Crookwell shire, Gunning shire and Mulwaree shire have undergone a resource sharing project for two years where we meet on a monthly basis to discuss issues and try to do things together. We do that by some seed funding through a federal government.

**Mr ALBANESE**—Were there elections in Crookwell last time?

**Mr Wilkinson**—It was before my time. It was in 1999; they had 11 or 12 nominations for the nine places.

**CHAIR**—Would you support the accreditation of councils? If so, if you reached demonstrated ability, standards and so on do you then believe it would be fair for you to deliver programs on behalf of other spheres of government on an accredited and fully funded basis?

**Mr Wilkinson**—Very much so. We are currently doing contract work for the Roads and Traffic Authority, very much in what we call a single invitation contract situation which is a quality assured process. They have certain criteria that they require us to meet and we are required to meet certain obligations. We have been doing that for the last two years. The hardest part for us is keeping up the book work, with all the paper work that is involved. In some cases, we partly do that now with other services, so we think that doing it on an accredited basis would be a great way of delivering services to the community.

**Mr NAIRN**—Your submission, along with a number of others, made the comment that New South Wales is the only state that does not pass on national competition policy funding. Have you done any assessment of what that would mean to a shire like Crookwell if it were to do so?

**Mr Wilkinson**—In dollar terms we have not. All I can say is that it would be better than what we have now.

**Mr NAIRN**—That is for sure.

**Mr Wilkinson**—It has been an issue, certainly, in local government forums, but it does not seem to have got through at a state level at this time.

**Mr NAIRN**—Has the New South Wales country shires association taken it up with the state government with a vengeance in the past?

**Mr Wilkinson**—I know they have taken it up. I am not exactly sure how much vengeance there was in that, but certainly they did not get a sound response or a good outcome.

**Mr NAIRN**—On a totally unrelated matter, have you got much unrateable land in Crookwell shire? Has that increased in recent years?

**Mr Wilkinson**—No, that is not a big issue for us. I know it is in some other areas. We have some areas of national park, but they are not substantial. We have not got a large quantity of unrateable land. We have a bit of crown land et cetera, but nothing of too significant a proportion.

**Mr NAIRN**—Do any state government business enterprises operate within the shire that do not pay rates?

**Mr Wilkinson**—None that are physically located there, no.

**Mr NAIRN**—We asked the department earlier for some examples of those. We do not have them yet, but I asked the question in case we can start to identify some.

**Mr Wilkinson**—There are none of a significant nature there.

**Ms BURKE**—I am not sure whether it was you or a previous witness who mentioned the impact of national competition policy on local councils.

**Mr Wilkinson**—We have not put any hard dollar figures on it as such. It has been more of a systematic process improvement in our case. That is good in some respects. Mr Smith might have mentioned whether or not things they have achieved like national competition policy benchmarking and whatever have directly been measured. That is certainly the case in our case. There have certainly been some improvements in systems and processes, but we have not done any measurement on real outcomes.

**Ms BURKE**—Being a regional shire, along with the impost of cost shifting from state and federal government, have you experienced loss through private sector enterprises leaving the area, where council—in WA I think someone said like the last man standing—has been picking up the tab for everything under the sun?

**Mr Wilkinson**—Obviously with the rural decline of a few years ago there has been a shift in the business sector and that sort of thing. But the town and shire of Crookwell has survived reasonably strongly, probably because it is close to Goulburn and also to Canberra and Sydney. We are getting a bit of the growth factor through there. I would not say that has been a substantive issue.

**Mr KING**—Do you have a library in Crookwell?

**Mr Wilkinson**—Yes. We are part of the Southern Tablelands Regional Library network, which is auspiced through Goulburn but managed by all of the councils through a committee structure. We have a branch library in Crookwell.

**Mr KING**—Is it subsidised by your council?

**Mr Wilkinson**—Yes.

**Mr KING**—To what extent per book per year?

**Mr Wilkinson**—The whole operation costs about \$60,000. It would be more than \$4 or \$5 a head.

**Mr KING**—Do you know how many registered users of the library there are?

**Mr Wilkinson**—Yes, but not off the top of my head. I do know that it is a significant proportion of the community, because the library manager keeps on telling me that. It is a very valuable resource centre in that, two years ago, we received some government assistance to upgrade the infrastructure and we had community support via a local firm, called Virbac, which helped us put in some information technology facilities there, as in four computers et cetera.

**Mr KING**—Is that grant linked to a requirement that you do not charge?

**Mr Wilkinson**—Yes, the government grant is.

**Mr KING**—Have you worked out whether you would be able to address some of the costs issues associated with that subsidised service—for example, if you required an annual fee per registered user rather than seeking the government subsidy?

**Mr Wilkinson**—We have not done that direct exercise but that certainly could be a way of doing it. However, again, I believe the community would be saying, ‘You’re charging us the rates and you’re going to charge us an extra fee for that, so it’s a double charge,’ but that is a political issue that you would have to overcome.

**Mr KING**—I would question that it is a political issue, I would have to tell you. One question that is thrown up by your submission—to me anyway—is that some of your services, such as the library, operate more effectively because they operate in a regional context. Whether they are being properly accounted for by the council is one question, but it does raise another question: whether the services provided by your council might not be better provided by a slightly larger organisation, if I can put it that way.

**Mr Wilkinson**—In some respects, yes, you could argue that point. In respect of the library issue, what you are buying on a group basis is the library stock, or having the library stock circulation, more than the actual operational things. The council still has to have a person or persons there to operate the facility itself.

**Mr KING**—What is the nearest large town in your area?

**Mr Wilkinson**—Goulburn, which is 42 kilometres away.

**Mr KING**—Would you see a difficulty in the services provided by your administration being provided by a council organised from Goulburn?

**Mr Wilkinson**—Yes.



**Mr KING**—Why?

**Mr Wilkinson**—Because of the community of interest. The community of interest and the specific needs of the community would be lost in the transition, in the 42 kilometres, because the people in Goulburn do not necessarily know what the Crookwell community's needs are.

**CHAIR**—We will wrap it up there. Thank you very much again for coming.

**Mr Wilkinson**—Thank you again for the opportunity. We appreciate that.

[2.30 p.m.]

**HARRIS, Miss Denita, Policy Manager and Industrial Relations Advocate, National Farmers Federation**

**POTTER, Mr Michael, Policy Manager, Economics, National Farmers Federation**

**CHAIR**—Thank you both for coming. Before we start, I must remind you that, although the committee does not require you to give evidence under oath, the hearings are legal procedures of the parliament and warrant the same respect as proceedings of the House of Representatives, and the giving of false or misleading evidence is a serious matter. Would you like to make a short statement before we proceed to questions?

**Miss Harris**—The National Farmers Federation welcomes the opportunity to appear before the committee today to expand upon the issues contained within our submission to the inquiry. The provision and cost of services in regional Australia are a significant issue for farmers. We are currently finalising our submission to the Commonwealth government's regional business development analysis that will incorporate matters raised within our submission on local government and cost shifting. That submission will also highlight the importance of access to services and support for regional areas to the benefit of business development.

The responsibilities of local government have increased over time, particularly in regional areas. Added responsibility has occurred due to deregulation of power from other levels of government or the decision at local government level that they need to become involved in new areas or to become increasingly involved in areas that have not historically been the focus for local government. The question of what the additional cost burdens associated with these new or increased responsibilities are, and how local governments access revenue to fund such measures, is the crucial issue to be determined. Further, we need to ensure that the shift to new areas of responsibility does not erode existing services to the local community.

Cost shifting places new pressures on local government that can be alleviated either through an increase in taxes at a local level or, alternatively, through additional funds from federal and state governments. NFF believes it is inappropriate to place the burden of cost shifting on rate payers, particularly large land-holders in regional areas. A new sustainable funding and spending model is required for an equitable allocation of funding, recognising the increasing responsibility undertaken by local governments in regional areas. Interlinked with the consequences of cost shifting is the quality of local government governance. There is no doubt that there have been some concerns expressed within some local communities as to the dissatisfaction with their local government. NFF believes it would be appropriate to address some of these concerns when formulating a new model of funding to local government.

**CHAIR**—Could I take you up on that, Miss Harris. When you said 'a new sustainable funding mechanism', what did you have in mind?

**Miss Harris**—It is difficult to determine. Obviously, in our submission we outline a number of the potentials in terms of changes in tax methods and so forth. But, effectively, we need to

look at the issue of social services versus general property services provided by local government and whether or not we need to see those as two distinct measures. So we look at the more historical property based services. Then we need to look at services and see whether or not there is a need to allocate funding effectively through mechanisms such as the Commonwealth grants process. So it is a way in which we can say, 'OK, how much money do they need?' and then, 'Where are they going to get it from?' We do not believe that the process currently imposed through the system is equitable, and it is also not efficient in terms of providing services that are needed in regional areas.

**Mr Potter**—One of our arguments is that the appropriate scope of funding for social services is through the broader tax net, particularly the income tax net, whereas the issues relating more to economic services at the local level can be funded through local rates. However, we have one key proviso. We do not like the idea of double charging, particularly in the case of economic services such as roads, which are charged once through rates and then again through fuel excise.

**CHAIR**—Can I take you up on two points, Mr Potter. You said that you favour rates but, to a land-holder, aren't rates a form of wealth tax which, if you are not a land-holder living in the council area, you are not paying? I can see he agrees!

**Mr ALBANESE**—I have been waiting a long time to hear a member of the Howard government put rates and wealth tax together!

**CHAIR**—I have been saying it longer than I have been in parliament.

**Mr Potter**—That certainly is an issue. What is your specific concern?

**CHAIR**—You were saying that you favoured something, but that is a tax that is set according to land holdings, which may or may not relate to the level of services, even economic services.

**Miss Harris**—Certainly in the submission we highlight the fact that, in many respects, it does not relate to the capacity to pay either. For example, many farmers may have a large substantial asset, but nevertheless do not have the accessible income to pay the high rates attached to their asset holdings. So there needs to be consideration in terms of the structures involved.

**CHAIR**—I am trying to clarify this. Are you favouring continuing that system or are you favouring something different for the economic services aspect?

**Miss Harris**—What we have said is that you can utilise the existing process. However, if there is a consideration of expanding upon that existing rate then you obviously need to look at the other taxes that we are paying and offset by reductions in those taxes. You cannot increase in one area without necessarily decreasing in another. The cost burden of the cost shifting of local government responsibility should not be on particular property owners within a region. It needs to be spread out more equitably and therefore it is difficult to base that upon land rates alone.

**Mr Potter**—We are not arguing that economic services provided by local government have to be paid for only through rates. We think that there is benefit to those particular social services being paid for by federal government taxes rather than through rates.

**CHAIR**—If I could just follow-up on a point Mr Potter made. You were talking about double charging and in your submission I think you mentioned road funding as an area where you believe there is double charging. You talk about other examples of double charging, could you elaborate on that?

**Mr Potter**—I cannot think of anything off the top of my head.

**CHAIR**—Maybe you could take it on notice.

**Mr NAIRN**—In terms of different funding models, in the lead-up to the introduction of the goods and services tax, one of the things that was talked about was local government being funded from the proceeds of the GST. The Commonwealth grants would be wiped and councils would develop some sort of formula with state governments for a share of the GST so that the GST increases to state governments would flow to local government along an accepted formula. There was reasonable debate about that but most local government areas were too suspicious that it would actually happen so they made very strong representations that the financial assistance grants should continue to come from the Commonwealth. Is that a model you think ought to be explored so that there is that sort of natural growth?

**Miss Harris**—Certainly that should be considered because it is very difficult—just as it used to be historically for the state governments—for local governments to keep on going cap in hand for further additional funds on an ad hoc basis. If it was tied to an ongoing income source where there was no longer a requirement to go through that process then obviously it would be far more effectively streamlined. Certainly that style of process has merit in being considered. It is therefore more of a responsibility of local government to manage generally how they are going to provide services and it then provides an opportunity for local government to tie that money to projects they see as important to the local community as opposed to it being constantly allocated to specific projects that they require on an ad hoc basis.

**Ms BURKE**—What are the services that local government should be providing?

**Miss Harris**—It is becoming increasingly complex in regional and rural Australia in terms of services because there are services that no longer exist that were previously provided by private enterprise. With the centralisation of service provisions by both state and federal government there is again some lack of services provided to rural communities. In some cases—not in all—the local governments have taken up that burden. We obviously need as much access as possible to services that assist the community not only in a social sense but also in a business development sense to ensure that we maintain a sustainable economy within rural and regional Australia.

Obviously, that flows on to many varied and different things because, to attract new people into a regional area, you need not just business support but also social amenity support such as libraries and so forth that enable the people to gain information and access to the world. The Internet is not the answer to resolving a lot of those problems just because some things are available on it. You need that one-to-one interface that many services used to provide. It is very hard to quantify here and now the list of services but, effectively, it is the cluster of services that support a community to work effectively in both a business sense and a social sense. That is being eroded in rural areas.

**Ms BURKE**—How much does it get down to what can actually be afforded, what is needed and what is just community expectation and demand? Given the small nature of most of the councils and the National Farmers Federation, one person gets voted in and out by 300 people. Most of us get voted in by 90,000 people.

**CHAIR**—They do not all vote for you.

**Ms BURKE**—No, I want to be nice. You are never going to get that absolute, in-your-face demand. How much can be sustained? At what point do we have to say to people, ‘You have accepted a quality of life situation by living in a nice rural area,’ versus, ‘You continually demand and expect services.’ I will give you one classic example: we went to Perth and one of the councils there is paying for SBS to be relayed to its remote area. That may be very nice, but in my metropolitan seat half of the people cannot get SBS either. None of my local councils would fork out to bring in SBS but, because it is in metropolitan Melbourne, everybody in the bush thinks that they have to equate with that scale.

**CHAIR**—We all thought that you had it.

**Ms BURKE**—They all thought we had it, but lots of people live in TV black spots depending on where they are, metro or country. How long is a piece of string? How do we manage community expectation? Or do we keep saying, ‘No. We have got to do everything’?

**Miss Harris**—Obviously, there is a realisation by most communities that you cannot have everything that the city would normally have, otherwise you have taken away the distinction of living in a rural community. You lose that natural community feel if you start supplying a whole range of services. People have to be realistic and understand that only a certain amount of services can be provided. This comes back to governance issues of how you prioritise those services that the community wants, balance out the needs from a social perspective but, more importantly, from an economic and infrastructure perspective and make decisions. You need to ensure that there is community involvement in making those informed decisions, but you also need to recognise that sometimes you cannot make the community happy in respect of everything that it wants, and you need to look at a holistic approach to what services you can provide.

It is important for local communities to work in partnership with industry and with other levels of government. What can you do in a partnership role? Instead of just working within your own little community area, how can you expand by utilising the expertise of industries or government, or by working in close cooperation with other councils? That obviously happens on an ad hoc basis around the place. For example, I am aware that many communities spend a lot of money on regional tourism, which rural communities are increasingly becoming involved in. We need to look beyond what government can do and look at what the community as a whole can do.

**Mr Potter**—There is an aspect in which there are quite a few federal government programs which are tailored to communities to some degree or other. For example, picking one at random, the health department might be able to choose where particular hospitals go, and the transport department obviously decides where the roads go. All those particular spending decisions have implications for individual communities, and that is something which needs to be taken into account.

In relation to comparisons between urban and regional areas, something we are doing quite a lot of work on for this regional business development analysis panel is looking at disparities in things that aid regional areas and things that aid urban areas. I could go on about that for a long time but we argue that there are a number of government policies and regulations which aid urban areas, not necessarily to the detriment of regional areas but sometimes to the detriment of regional areas. I can go into more detail if you like.

**Ms BURKE**—No, that is fine. We are going to have an overlap with another inquiry so we will probably look at that then. It is a bit of a minefield.

**Mr NAIRN**—If my memory serves me correctly, the NFF over the years has probably had a reasonable amount to say about national competition policy and the impact on rural communities. Were you aware that New South Wales is the only state that does not pass on some of those benefits to local government? Has the NFF made any representations to the state government or other governments in relation to that?

**Miss Harris**—I became aware of that only when you asked that question earlier in proceedings. Due to the fact that it is a specifically New South Wales issue, it would be a matter that the New South Wales Farmers Association would take up. Certainly, it is something that we can bring to their attention. They may already be aware of the situation and working with it.

**Mr Potter**—In relation to national competition policy, something that the NFF distinctly supports is the need for the provision of compensation to people who are harmed in particular reform processes. I think that links in with what you are talking about. We would like to see some money going to communities that are disadvantaged in a particular reform process.

**Mr ALBANESE**—I have a question on your submission. In the last bit, ‘Governance of local government’, the last dot point says:

Increased regulation of local government activities, such as compulsory competitive tendering and reporting of donations ...

I am not sure why the reporting of donations would be a problem. Isn't that just seeking to ensure accountability? Given the history of local government—dare I say it—across the political spectrum, it is probably a good idea to have a bit of disclosure and transparency.

**Miss Harris**—I certainly would not disagree with you there. The importance is that the imposition of any regulation upon local government activities is not increasingly creating administrative burdens which detract from their service provision. I certainly would not disagree with you in principle but we need to be mindful of increasing administrative requirements. The funding could be more effectively spent in other ways. It is a balancing act. But certainly, there is no disagreement in terms of principle issues.

**Mr ALBANESE**—I wish I had quoted you to the previous witness. I note that on amalgamations you say:

Wider representation on councils can mean that it is less likely that individual businesses can sway decisions.

I also have a question on rates. To take up the chairman's point—I make it clear that his point was bipartisan—isn't it the case that wealth or class in this country, not just in urban areas but also in rural areas, can essentially be defined almost totally accurately by the ownership of property, and that rates as a tax on the ownership of property are an equitable tax?

**CHAIR**—I think it is a fair question but I am not—

**Mr NAIRN**—You are not going to be verballed.

**CHAIR**—No, I am not going to be verballed.

**Mr ALBANESE**—I was not trying to verbal you; I was trying—

**Miss Harris**—To clarify: you are effectively asking about a class distinction based on land ownership?

**Mr ALBANESE**—I am saying that, in terms of your argument that the rate system is inequitable, isn't it the case that—to put it a different way—ability to pay, in terms of accumulated wealth, if not accumulated income, can be determined pretty accurately by the amount of property or whether or not people own property?

**Miss Harris**—You have to be careful with that, because obviously it is an issue of definition of ownership. You may have ownership of land in your name, but the bank owns 95 per cent of it. You have to be very careful in making very generic statements like that. Obviously, property is indicative of somebody's asset base, but property may not be the only factor in determining their capacity to pay. As I said, we have to be very careful in the terminology of ownership. I define the question in very careful parameters. It is a factor, but it is not a deciding factor, because there are third parties involved. At the end of the day, our argument comes down to the fact that you cannot simply define land rates on the ownership of property without balancing those third-party factors that may come into play in terms of your access to funding and your percentage of ownership of that property. You may only hold a very small percentage of it.

**CHAIR**—The other point is that, in the case of a farmer, it is a working asset.

**Mr Potter**—Another example would be a retiree who purchased their home in the 1920s, probably for not very much. Let us say it is in the middle of Sydney, to make it a stark example. It would have increased dramatically in price, so now they are sitting on a house which is worth a huge amount of money but they have very little income and the value of the house is not an indicator of their ability to pay.

**Mr ALBANESE**—Except that they do have access to a whole lot of other income through things like reverse mortgages et cetera, and their kids, through an accident of history, have access to that wealth.

**CHAIR**—And it is capital gains tax free.

**Mr KING**—The point you make about user charges would have more force if you focused on the current land value based system of statutory charges or contributions that some councils impose. When you have land value based rates and charges not necessarily reflected in the user costs it seems unfair to those people who actually use services and have to pay those additional costs and charges. Do you have a comment about that?

**Miss Harris**—Obviously, we need to ensure that there is no double-dipping and that there is not a certain percentage of a community that is substantially paying for the services for the whole of the community in an inequitable fashion.

**Mr KING**—There would be merit in a recommendation that suggested that user-pays charges should be not based upon a land value rate or a contribution but rather based upon the actual cost of the usage of those services, because that might also focus the attention of the council on issues of efficiency and accountability.

**Miss Harris**—I would certainly say that that has merit.

**Mr KING**—I agree with your point, which was contrary to that of Mr Albanese, in relation to the inefficient taxes—the tax mix switch, I think you referred to it as—of stamp duty and fuel excise, to which I would add land tax. Do you see this committee inquiry as an opportunity to make an observation to that effect?

**Miss Harris**—Yes, we do. If there is any consideration of the impact on cost-shifting, it cannot be seen in a narrow perspective. If there are going to be ways and means upon which you can look at providing more sustainable funding for local governments, obviously you need to incorporate some of those taxes that exist that may impact upon and create barriers to how that can be effectively implemented.

**Mr KING**—Finally, Chair, I want to focus on a paragraph that I think you have taken up before: rural areas. You make the comment that in Victoria regional councils spend \$867 per resident whereas metro councils spend \$624 per resident—presumably that means spending on service provision. Is that a fair comparison? Do you not need to also take into account the extent to which, if at all, those services are subsidised?

**Miss Harris**—Obviously, there are certainly those issues that need to be taken into consideration. These are indicative figures provided by one of our member associations and we would need to double-check whether or not they have taken those factors into account in providing those figures.

**Mr KING**—I have not looked at the figures, but I am sure it would be better for the chair to do that rather than me.

**CHAIR**—I will declare an interest—I am a member of the VFF.

**Mr KING**—I used to be a member of the New South Wales Farmers Association. Do you have any impression as to whether or not rural councils are subsidised per resident at a rate that is different to that at which city council residents are subsidised?



**Miss Harris**—I certainly do not have an answer to that.

**Mr Potter**—No, we do not have information on that one. We can take it on notice if you would like us to.

**Mr KING**—It is just that it does not seem to me to be a very helpful observation to talk about difference in expenditure per resident unless we know what the source of the funding for that expenditure is. It may be a very valid point that we are missing but it is an incomplete observation, it seems to me, unless it takes up both sides of the ledger. If you would care to take that comment on board and perhaps send in a supplementary note to the chair, that might be of some assistance.

**Miss Harris**—It may be difficult for us to access, but obviously we will see what we can do and talk to the secretariat regarding the question.

**Mr KING**—Where did you get the information that is in that paragraph from?

**Miss Harris**—This has been provided by our member organisation VFF, but we would need to know in what context they ascertained that information and the extent to which the details in the particular question you are asking were contained within that source material.

**CHAIR**—There are no other questions. Thank you both very much for coming in front of the committee and for putting in that submission.

**Mr Potter**—Actually, if you do not mind me saying so, I have just located the source for those numbers in the VFF submission. Do you mind if I read that out?

**CHAIR**—Yes, read it into the record.

**Mr Potter**—According to the VFF submission, the data was:

Sourced from calculations on statistics from *Local Government in Victoria 2001*, Department of Infrastructure, 2002 ...

**CHAIR**—Thank you.

**Proceedings suspended from 3.03 p.m. to 3.39 p.m.**

**CONLON, Mr Peter Noel, former Secretary, Country Public Libraries Association****WHELAN, Councillor Susan Elizabeth, Deputy Chairman, Country Public Libraries Association**

**CHAIR**—Welcome, and thank you for coming. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter. Having said that, would you like to make a short opening statement before we proceed to questions from the committee?

**Councillor Whelan**—Thank you, Mr Chair, and I thank the committee for being prepared to listen to us. A lot of what we have to say is obviously contained in our submission. There are a couple of things I would like to add. This is not an attack on any particular state government per se; it is a comment on state government over a number of years. The Country Public Libraries Association has been going for about 10 years now. It was set up to lobby state governments of all political persuasions because we felt that the funding coming from state government was not sufficient to cover the costs of libraries. If you look at the submission you can see that local government to varying degrees gives quite considerably more and cost shifting occurs on a number of levels, I guess.

One of the things that you cannot measure is the intangible cost shifting. For instance, with education people assume that school libraries probably cover all the requirements of the students, but they do not. There is a huge impost on public libraries, particularly in the bush, from the education department, which is an intangible cost to the community and probably it is unable to be costed out. School libraries are not well resourced and they generally close at 3.30 in the afternoon. If a whole group of schools is given an assignment, then they go to the public library looking for the information. In Queanbeyan's case we have two high schools and about six primary schools, and if all the primary schools or both high schools are given an assignment the young people end up at the library looking for the information, and that puts a burden on what we already have. In addition, we do not have enough resources in our public library to cover what the young people need. So that is a hidden cost shifting that a lot of people are not aware of. The same applies to TAFE students. I will leave most of that, unless Peter has got something that he would like to add. I will take questions and then I can work out exactly what you want to know from us.

**Mr Conlon**—I would like to say a few words. The major challenge that public libraries face is incorporating electronic and online information into the services they provide. There has been quite a revolution in this area in the past 10 years. The majority of the funding for providing those services and the infrastructure to connect to online resources has come from local government. So local government has very much had to foot the bill for the new technologies. One of the major issues with that is that the smaller and more remote libraries face the greatest challenges in terms of providing that access to online resources at the same time as maintaining their print and traditional library resources. Some funding has come from the state government to assist with electronic resources but very little from the federal government. In essence, the

majority of the funding has come from local government and they have really had to foot that bill.

**Councillor Whelan**—Peter is the practitioner on the council—

**CHAIR**—I suppose I should ask the obvious question first. No doubt you have approached the state government on many occasions. Why is it that they appear to be reluctant to raise the level of support?

**Councillor Whelan**—I am not sure whether they are actually reluctant to raise the level of support as opposed to seeing it amongst a number of priorities, as all governments do, and they do not have a high priority, I guess, on libraries. We have certainly approached the state government on numerous occasions—the last time was the last budget round—and we asked for almost an extra \$20 million for public libraries. That included funding for the State Library of New South Wales as well, but we did not get anything like that. We put in what we considered was a very good submission and we were, to put it mildly, let down by the response. So, yes, we have done it and I think it is part of their priority and, like all governments, that does not take a high priority. Local government is picking up the can in a lot of cases too, so it is seen that the libraries are still being funded by local government.

**CHAIR**—So in terms of cost shifting, you have got figures where you have gone from 73.4 per cent for local government in 1980 to an estimate of 91.1 per cent, and, as you point out, in other states it is not dissimilar. Ideally, what do you think it should be in terms of the share?

**Councillor Whelan**—There was an agreement a long time ago that it would be fifty-fifty. Ideally, there should probably be a three-way partnership these days—state, federal and local—and, say, a third each so it works out fairly. Obviously, we are all playing to the same constituency; it is just different levels of government that are responsible for different functions of government. I would certainly think the federal government should be involved in a third of the funding for libraries these days.

**CHAIR**—Is that a figure that has been worked through?

**Councillor Whelan**—No. We have always said the state government should provide at least the equivalent to the other states. As an organisation, we have not really looked at what we think the three-way split would be. We have just looked at what we think would be fair from the state government. As I said, a long time ago—I think it was about the 1940s—there was an agreement that it would be a fifty-fifty split. I do not even know whether that was a formal agreement; maybe it was just somebody's handshake. But there is certainly an understanding that, once upon a time, there was going to be a fifty-fifty split between state and local government.

**CHAIR**—In terms of electronic information, have you had applications to Networking the Nation for that? What has happened to those?

**Mr Conlon**—Directly to local government? Is that what you mean?

**CHAIR**—No, the federal program, Networking the Nation.

**Mr Conlon**—In New South Wales the only one that I am directly aware of is the funding that is being used to set up Rural Link. I think that was about \$3.5 million and there was a figure of about \$4 million a couple of years ago. So a total of about \$7 to \$8 million has been provided through that program to local government, as far as I am aware. Most of that would have been for infrastructure programs in terms of connectivity to the Internet.

**CHAIR**—How widespread has the access been across the country?

**Mr Conlon**—To some extent, it is quite erratic. To a large extent, it is dependent on the roll-out of the technology. Some larger regional centres have quite a choice but smaller, more remote towns and country communities simply do not have the same access to that sort of technology.

**Councillor Whelan**—It depends on the cost of accessing the Internet and those sorts of things too. Sometimes it is going to be a local call to dial into the Internet and in other cases it is going to be a STD call. Obviously, the smaller communities are the ones that have to do that, because they are more remote and cannot sustain that cost.

**CHAIR**—Are you saying that some do not have local call access? I thought we had that across the board now.

**Councillor Whelan**—Not necessarily, no.

**CHAIR**—Is that only if you use Telstra as an ISP?

**Mr Conlon**—My information from the members in regional areas is that they have branch libraries which are spread over quite an area. It reaches a point where it is no longer a local call and it becomes a STD call.

**Mr NAIRN**—The federal government has never directly provided funds for libraries, have they?

**Mr Conlon**—Not that I am aware of.

**Mr NAIRN**—So any federal money that has gone into local government libraries would have probably gone via financial assistance grants or something like that?

**Councillor Whelan**—Yes.

**Mr NAIRN**—Some of the smaller communities have taken opportunities to combine school libraries with local government. Yarrolumla is an example: this shire actually put money into the new school, because the library was going to be a community resource as well as a school resource. Is that very widespread or is there potential to develop that concept further so that you get a slightly better economy of scale and perhaps cut out some duplication?

**Councillor Whelan**—I think probably both of us have answered that question in that no, it is not widespread at all—and I will get Peter to talk about the difficulties it is fraught with, be-

cause it is fraught with difficulties. There have been a couple of examples in New South Wales which were not terribly successful, but I will get Peter to talk about that from a practitioner's point of view in terms of how it works or does not work.

**Mr Conlon**—In New South Wales there are a number of joint school-public libraries. The general consensus is that that has not been very successful because there are two very different organisations trying to work together. The difficulties range from using different computer systems to working under different award conditions and having different opening hours. Also, there have been issues with parity between public library staff and what are essentially teaching staff. For the ones where it has worked reasonably well, really it works well because there is a huge amount of goodwill and a willingness to try to work through some of the structural problems. But essentially the joint libraries are not regarded as a good fit. The only place that I am aware of where they have been particularly successful is in South Australia, where essentially both public and school libraries are administered through the state government.

**Mr NAIRN**—How has the Yarrowlumla one at Bungendore worked—not all that well I gather from your guarded comments?

**Mr Conlon**—There are two separate libraries in the same building. To try and negotiate things like amalgamating collections, there are two different computer systems—one of which is attached to a very large organisation and the other is attached to the local council—and there are two councils involved, so there is quite a bit of negotiation going on. It is quite difficult to merge the two in an effective way.

**Councillor Whelan**—Peter is the person trying to merge all those things, so he has a very good knowledge of how it is actually working. I think people should be made aware that Peter is talking about the experiences the Queanbeyan City Council Library manage in trying to make the whole thing work.

**Mr NAIRN**—In theory it sounds good. In theory you can put aside the demarcation problem which, by the sound of it, is a lot of the problem. The theory of having a joint library in a small community sounds great, instead of trying to maintain two infrastructures, but what you are saying is that in practice it is very difficult to make it work efficiently.

**Mr Conlon**—Yes. I think the other major problem is that public libraries serve the whole community; a school library serves essentially a school community. For instance, at Yarrowlumla the collection is aimed at children up to the age of 12. So beyond that it is the public library that has to provide the resources, because it is not reasonable that the school would provide those. In theory it sounds like a great idea to have two libraries working together, but there are quite a few problems involved with that at a very practical level.

**Ms BURKE**—With the funding from the state government to the libraries, is it just direct grant funding or how is it actually worked out?

**Mr Conlon**—It is about 80 per cent subsidy. The total grant we get is about nine to 10 per cent of the total cost of public library services in New South Wales. About seven to eight per cent of that money is grant funding and the rest is subsidy, based on population and a number of

other factors—how far you are from the nearest regional centre and whether you have a large number of elderly people. It does take some of those factors into consideration.

**Ms BURKE**—So there is a needs based analysis which takes into account some of those sorts of things?

**Mr Conlon**—Yes.

**Ms BURKE**—Obviously it varies from state to state depending on how each state government provides funding. Have you had a look at the various models around the country? Are any of them better or worse?

**Mr Conlon**—The ones we have been talking to most closely are Victoria and Queensland. Victoria has a similar set-up to New South Wales but the state government there provides about twice the amount of money that the New South Wales government provides per capita. In Queensland it is a mix of local councils, and the state government plays a direct role in providing resources and infrastructure across the state. The state government funding in Queensland is certainly a lot higher per capita than in New South Wales. To some degree, that is the model we are looking at—where the state or federal government takes more responsibility for the infrastructure and provision of the connectivity, and the local libraries take on the responsibility for accessing the services and providing them directly to the community.

**Ms BURKE**—I was surprised by your figures—that you have increased from 25 per cent to 49 per cent. I thought there was actually a decrease in local library usage. So in your neck of the woods you have actually—

**Mr Conlon**—Yes.

**Ms BURKE**—Do you think that holds true regionally and rurally across Australia? I certainly know, anecdotally—I do not want to actually test the numbers—that in metropolitan Melbourne, where I am from, there has been a decrease in library usage because of people having Internet access at home. For things such as school assignments, kids do not necessarily go to the library anymore.

**Mr Conlon**—What is happening is that the number of items being borrowed from libraries is declining but the number of people joining and using the libraries is increasing. It is quite surprising that the latest census shows that, in New South Wales, for instance, something like less than 50 per cent of homes have access to PCs and the Internet. So there is still a very high number of people who do not have direct access to a PC or the Internet at home. A lot more information is available through that means, and, for a lot of school students and other people doing research, the local library is the access point to those resources.

**Ms BURKE**—So they are using the library as the portal for Internet access as opposed to actually borrowing and taking out books or journals?

**Mr Conlon**—Yes, that is what we are finding. For instance, at the Queanbeyan library we have gone from having two PCs to having six PCs dedicated to the Internet. They are booked pretty much full time, and that has been the experience across the state.

**Councillor Whelan**—Particularly in rural and regional New South Wales.

**Ms BURKE**—I suppose the other thing is that cabling access into the library is easier to achieve than cabling access and phone lines to some fairly distant properties and outlying towns et cetera. As you have indicated, you have picked up some of that money for networking, as opposed to just collection and infrastructure costs.

**Mr Conlon**—It has been a bit of a two-edged sword. The provision of the infrastructure is fantastic and to have that cable link is wonderful. What then tends to happen is that there is on-going maintenance, troubleshooting and difficulties that come up with replacing hardware which generally needs to be replaced every two to three years. That does not tend to come bundled up with the funding, so the responsibility to try to find those funds tends to be passed down the line to the local government and to the library.

**Ms BURKE**—So there is a great debate about whether you purchase or lease and the costs.

**Mr Conlon**—Yes, and about the choices you have in the regional areas for leasing and for that sort of approach.

**Councillor Whelan**—Just the sheer replacement of it and the cost, as Peter said, of doing it. It is all very well to get it initially but the money is not there for recurrent costs, so local government picks it up. Obviously, particularly in smaller communities, once you have created an expectation of a service it is a very brave council that will withdraw it. Unless council have a really good reason to not provide a service, their community has the expectation that council will provide it.

**Ms BURKE**—Do people utilise the library computer for personal email access and those sorts of things or do you have to put restrictions on how you go about dealing with people who spend hours on chat lines and things at the library? Are you doing any cost recovery from individual users of those extra services?

**Mr Conlon**—Certainly there is a high demand for email, and we manage that by making just one PC available for email, and the others are available for Internet and information resources. And we limit the time on the email PC so that it is 15 or 20 minutes rather than somebody sitting there for hours. I might just get you to repeat your second question.

**Ms BURKE**—It was about cost recovery. Do you charge them?

**Mr Conlon**—Really, it is information in another format. So, instead of being in a print format, it is in electronic format. We do not charge them to use the PC or the online information, but we do charge them if they want to print or they want to download material to take away with them. So we make that distinction.

**Ms BURKE**—My final obvious question, from the ALP member on the bench—

**Councillor Whelan**—I noticed that the others were missing!

**Ms BURKE**—is about the prospect of the sale of Telstra and the impact that that would have upon the ability of regional areas to provide that if there was then a greater cost impost from going to private providers for telecommunications.

**CHAIR**—There are a lot of assumptions there.

**Ms BURKE**—There is a lot of assumption there, but that is all right.

**Councillor Whelan**—Yes.

**Ms BURKE**—It is a loaded political question—I will be honest.

**Councillor Whelan**—That is all right. Gary will tell you that you have asked the right person, won't you, Gary? I think that, if Telstra is sold, there is the potential that we will not be able to have access for our smaller, remoter communities, because costs will escalate. This is my personal view. It is not the CPLA's view, but I certainly have great concerns about what will happen if we have purely private providers everywhere. I do not believe that a private provider can be continued to be forced to provide services to the bush at a subsidised cost when they are trying to be a commercially based organisation. I personally believe that the bush will suffer, and I have great concerns about that from my smaller communities—wearing my CPLA hat, I call them 'my smaller communities' because that is how I see them. I do have great concerns for what will happen.

I know that at the moment, if local government have to continue to provide the costs for any sort of library provision, they are finding it very difficult. You have to look at what else is happening in the bush in terms of drought and so on and what costs local government are going to have to carry for that. The things they will cut are the things that a lot of councils still see as add-ons. A lot of the smaller rural councils still see roads, rates and rubbish as their primary concerns. While I passionately believe that libraries are part of our primary concerns, a lot of them do not, and those are the things that they will cut, to the detriment of their community. I certainly believe that.

**Mr NAIRN**—The Southern Phone Company will help out, Sue!

**Councillor Whelan**—The Southern Phone Company, I hope, will do very well. I have walked away from that, Gary, as you know. But, yes, hopefully it will.

**CHAIR**—You talk about the increased burden on local government with the libraries. Can you identify anywhere where local government has had to cut other services to keep the libraries going?

**Councillor Whelan**—No, because they will cut libraries before they will cut other services. It is as simple as that.

**Ms BURKE**—Then you can demonstrate where libraries have closed and communities have had to walk away from them.



**Councillor Whelan**—We have certainly looked at that. I am not sure whether we have got it with us, but we certainly are aware of where that has happened. We can provide that if you would like it.

**Mr NAIRN**—I was going to be a bit cheeky and—

**CHAIR**—You can run the debate after too, if you want to.

**Mr NAIRN**—Sue is also the Chair of the Australian Capital Region Development Council, which covers about 18 shires.

**Councillor Whelan**—About that, plus the ACT.

**Mr NAIRN**—Yes. I was just going to ask you, Sue, not a difficult question in that sense. I was just wondering whether the ACRDC has thought about putting in a submission to this inquiry, given that it works on very much a regional basis and a lot of the matters that have been raised in this inquiry deal with local government areas working together potentially to create critical mass and so on. I just thought that there may be some useful input coming from the ACRDC and wondered whether you have had a chance to consider that.

**Councillor Whelan**—We have not. We have a council meeting this weekend and a new executive officer, as you are probably aware. Rod up and left me and went to America. We have appointed someone new. But we can certainly look at that. We are looking at a couple of the other inquiries that are on. There is an inquiry into regional business that we are looking at making a submission to. There is certainly no reason that we could not have some input. Talking about libraries, I can tell you about one in this region where they are considering cutting back library services, and that is at Bermagui. Bega Valley Shire Council is looking at Bermagui. It was a real shock to me, because I had just taken the council to Bermagui to have a look at what was happening there. Then I was told by the Bega librarian that one of the places where he is looking at cutting services is Bermagui.

**Mr NAIRN**—We have a submission from Bega Valley Shire, so if we get to talk to them we can raise that.

**CHAIR**—Okay, I will keep that in mind.

**Mr KING**—It seems to me that library services are an excellent example—perhaps only in New South Wales; I am not sure about the other states—of local government being required to fill a gap left by declining state government support. Do you agree with that?

**Councillor Whelan**—I think that is correct to varying degrees. You can see from our submission that different councils provide different levels of support to libraries. Successive state governments of both political persuasions—and as I said earlier we are not targeting this particular government—have been almost content to sit back, because local government sees it as very important and has picked up the tab.

**Mr KING**—Some figures presented to us in one of the submissions suggested that in 1980 the state government put in \$8.48 million and the local governments in the state put in \$27 mil-

lion. In 2000 the relativities were \$17 million from the state government and \$185 million from local governments. That was a radical turnaround which meant that the state government's share of the total cost, which had been about 23 per cent, just dived over the 20-year period. Is that your experience?

**Councillor Whelan**—I think so. If you give them a hard enough time they will give you money. As I said earlier, that is why the CPLA was formed. We certainly lobbied Peter Collins, for instance, when he was Minister for the Arts, and he gave us \$3 million because we would not go away. I think people decided that was okay but then we started getting quite agitated again, because it is very obvious that state government are almost in abrogation of their responsibilities.

**Mr KING**—It has been suggested that over that short period about \$30 million in costs, in New South Wales alone, has been shifted from state government to local government. Would that be in line with your understanding of what has been happening over that period?

**Councillor Whelan**—I would not like to be quoted on the exact figures but there has been a decrease in the percentage. The state government would say that it has increased the money but, as a percentage of what is spent on libraries, funding has decreased. Certainly state governments have put in more dollars—if you look at the amount of money over time—but as the population of New South Wales grows the percentage of per capita funding contributed by the state government drops. For instance, Queanbeyan's growth rate was 3.8 per cent in the last 12 months. I cannot tell you whether that population is coming from other parts of New South Wales, the ACT or interstate. So the state government say they have given us increased funding because they have given us more dollars, but because of the increase in population and the expectation of the community—I think there is an increased expectation in the community as to what libraries will provide—the money we are getting is not going as far as it should. So local government continues to top up where they can. As I said, you will see there that different councils value their libraries differently and so provide different amounts of money. Local governments vary in their ability to pay too. Many local governments really look hard at that.

I know that Queanbeyan looks as if it is an affluent local government area but we do not have the money we need to provide everything our residents would like. We do put a value on our library and therefore we fund our library fairly well. I would like to fund it better and I am sure Peter would like us to, but we do better than a lot of other councils. It reflects both the councils' ability to put the money into it and the value the councillors place on libraries.

**Mr KING**—Those figures are at pages 50 and 58 of the written submissions, Chair. On that funding point you have raised, have you examined the efficiency with which councils are attempting to address this shortfall in funding? By that, I mean: have you looked at councils charging ratepayers, say, an annual fee for the use of the library—like \$10 for being an annual registrant? I know that you might lose some state government grant but the result might actually be a very significant boost to your available library funds. Have you looked at that?

**Councillor Whelan**—It is something that has been talked about but, personally—and I know a lot of my colleagues would agree—I would not like to do that.

**Mr KING**—Let's be brutal about this. What is wrong with people who use library services—including all the Internet services, toys and everything else they get these days at public libraries—being charged \$10 per annum to be a friend, supporter, registrant or user of the library?

**Councillor Whelan**—I think you are talking about two different things. You can be friends of the library and have that as something that you join, but I believe—

**Mr KING**—Perhaps I used the wrong word.

**Councillor Whelan**—As a local government practitioner, I believe that people already pay for their libraries in their rates; it is one of the things that their rates covers.

**Mr KING**—That is just rubbish, with the greatest respect.

**Councillor Whelan**—You might think so; I do not. I think that is covered by rates.

**Mr KING**—Why do you say that they pay through their rates?

**Councillor Whelan**—They pay for lots of things through their rates: rubbish, roads, sewerage, water and libraries.

**Mr KING**—If an optional service is being provided through the community and it is costing the community—as the figures are showing—a huge amount of money, do you not think it is appropriate that local communities should charge a minimal sum to represent the user costs for those who are actually using those services? I am just a bit concerned that local government may not have been focusing on the problem.

**Mr Conlon**—I think there is a huge equity issue there in terms of—

**Mr KING**—What is the equity issue?

**Mr Conlon**—That library services are available for those who can pay for them.

**Mr KING**—But \$10 a year—is that an unfair user-pays impost?

**Mr Conlon**—I think that is assuming that people can afford to pay that. You are also talking about families; you are not just talking about individuals. So if you have a family of, say, three or four children and each year they have to pay \$10 each to use the library, to me that is a major equity issue.

**Mr KING**—Why?

**Mr Conlon**—Because it is based on whether or not they can afford to pay for that service.

**Mr KING**—Would it not be better than having no library at all, if you were to examine the matter rationally? Ask yourself: can the community really afford this?

**Mr Conlon**—I think that comes back to what the role of libraries is, and do families have to make a choice between food, education or using the library?

**Mr KING**—See, somebody has got to pay for this eventually. It is being subsidised heavily at the moment; that is the true position. I want to see library services in rural communities as much as anybody—that is where I grew up and that is where I learnt to read. I read three *Biggles* books a week at the Bingara revolving library. But the point I am trying to make is that perhaps we have gone too far in examining equity as opposed to the broader equitable issues concerning the cost of providing these services.

**Mr Conlon**—I will just give the example of, say, Tallaganda, that has a population of—

**Mr KING**—Sorry, where is that?

**Mr Conlon**—It is not very far from here.

**Councillor Whelan**—Braidwood.

**Mr KING**—You know that, do you? Is it in your electorate?

**Councillor Whelan**—It is in Eden-Monaro.

**Mr KING**—That is a bit unfair—raising an electorate of one of the members of the committee.

**Mr NAIRN**—I didn't!

**Mr Conlon**—I am giving you an example.

**Councillor Whelan**—It is about 45 minutes from here.

**Mr Conlon**—That has a population of less than 3,000 people, so for them to be able to afford a library service on a pay-for-use system means that they would have to pay considerably more than somewhere in Sydney that has a huge population.

**Mr KING**—Why do you say that?

**Mr Conlon**—Because for them to have the same access to the same resources and the same level of service means they would have to pay a lot more.

**Mr KING**—But you have just told us that you are organised on a regional basis and that you have economies of scale for that reason.

**Mr Conlon**—I do not recall saying that.

**Mr KING**—The Tallaganda Library is what I think they used to call a revolving library. You have access to material that is not purchased just by that library, haven't you?

**Mr Conlon**—Yes, the Tallaganda Library is part of a regional structure. But within that region there are, I think, six to seven small councils.

**Mr KING**—Exactly.

**Mr Conlon**—So you are probably looking at a total population of about 40,000 people spread over a large area. If you compare that with a suburb in Sydney the level of service would be quite different.

**Mr KING**—You have 40,000 people in seven towns and 40,000 people in two suburbs; I really do not see the difference for this purpose. One issue that has been raised in one of the submissions by one of the ratepayers associations is that the time has come for important community services like library services to be more realistically and rationally priced in terms of the delivery of those services—and equitably priced, to use your words, because equity is important. If we are to have a sensible accountability system in relation to delivery of local government services then library services—as much as the delivery of road services—may need to be looked at in terms of their costs and who is paying for them. What do you say about that?

**Mr Conlon**—I think that is a decision for the community but, I think as Sue has clearly said, the community already pays for libraries so we are asking them to pay twice.

**Mr KING**—We are back to where we started; you say they pay for it through their rates, do you?

**Mr Conlon**—That is exactly right.

**Mr KING**—That is your assertion.

**Mr Conlon**—That is where the bulk of our funding comes from—the ratepayers.

**Ms BURKE**—Your argument would be that libraries are a fundamental and essential service of local governments?

**Councillor Whelan**—Exactly.

**Ms BURKE**—And it is only local governments that actually provide public libraries.

**Councillor Whelan**—If you look at the figures, that is exactly how it is funded at the moment.

**CHAIR**—So this is not really a cost shifting exercise from the state government at all?

**Ms BURKE**—No, I would not say that.

**Councillor Whelan**—It is.

**Ms BURKE**—We ask people all the time: what is one of the essential services that local government provides? Libraries has always been a service that local government has provided.

**Councillor Whelan**—That is right.

**Ms BURKE**—But from time immemorial, because of the cost involved with them, state governments have assisted in the provision of that service.

**Councillor Whelan**—It has been viewed as a partnership with state government, and what we are saying is that the partnership is becoming more and more inequitable—to use that word. We are saying that in the end, unless state governments, and probably federal governments as well, make some contribution to libraries, local government will say, ‘Enough is enough.’ Maybe some of them will go down the road, as Mr King suggests, and start charging for it. Then people who can afford it will have access to the library and people who cannot afford it will have even less access and become even more sidelined by society, which I think would be a great pity. It is a partnership, and we are saying that at the moment one of our partners is shifting costs down the line to us. It may in the end become unacceptable if that continues.

**Mr KING**—I think the material I put to you supports your proposition and it is contained in the written submissions, but what is of concern to me is that, as I understand it, some of the grant moneys you get from the state government are dependent upon there being no charge for the use of the library.

**Councillor Whelan**—It is in the library act.

**Mr KING**—Yes, it is in the act; but the grant moneys are not very much.

**Councillor Whelan**—No.

**Mr KING**—It has been suggested by some ratepayer associations that the libraries would be better off, and the communities would be better off, if there was an up-front charge of, say, \$10 a year, which would double the amount that you get in terms of the grants on one calculation. What do you say about that?

**Councillor Whelan**—It might be, and I think that potentially some councils will look at that. However, my concern is that it will not be just \$10. The amount of money we get from the state government is about \$3.28 at the moment, so it is a lot more than we get from them. But then councillors will decide that this is a nice way to recoup all the money they are spending on libraries and it will be a lot more than \$10. We will get to a situation where libraries are only for the well-off and those who are not so well-off do not have access to the Internet and to information. Libraries do not just provide books for reading; they provide a whole gamut of information these days, including local history and all those sorts of things.

**Mr KING**—They do a great job.

**Councillor Whelan**—A library is not just a book-borrowing organisation, as it may have been in the past. I am concerned that if we open that floodgate it will become for the well-off only who will go and use it, and the people who really need the libraries will not be able to ac-

cess them because they will not be able to afford it. My contention as a local government practitioner is that it is an essential part of local government's provision of services. Therefore, like roads, rates and rubbish, which are the traditional things that local government provides, libraries are an essential part of what councils provide now in this new information age. It is certainly part of what we should do. Every country library—Peter can correct me if I am wrong—in every country council in New South Wales belongs to the Country Public Libraries Association, and every metropolitan library belongs to our sister organisation, the Metropolitan Public Libraries Association. They all see that what we do in lobbying and in our philosophy that libraries are an essential part of their local government's provision of services is right.

**Mr NAIRN**—That is part of the difficulty, isn't it? Part of what we are ultimately trying to get to is: what are the essential services and how are they going to be paid for, and to what level? I suppose you could equally run the argument that water is an essential service and is part of the rates. But councils and governments over the years have said, 'It is essential but, if you are going to use more than anybody else, you should pay a bit more.' You can get into those sorts of arguments as well.

**Councillor Whelan**—It is easier with water to say that X marks the spot, and then you pay more for your water. It is very difficult to say that X marks the spot in terms of usage of information and things like that.

**Mr NAIRN**—Yes, it is a lot harder. I noted the comment from Peter earlier that you do not have any real restriction on somebody using the public library resources for email, other than for 15 minutes at a time or something like that. You would not want somebody ultimately using the public library to run a business and be in there receiving their business emails and sending them and backwards and forwards. You could say, 'If you want to do that, you pay a premium.'

**Councillor Whelan**—I am sure the staff would pick up somebody who is consistently coming in and doing that. They are fairly vigilant in looking at what is happening and what people are doing. I think that would be picked up because there would not be very many people who would do that. I take your point; we certainly would not want that at all. We do have restrictions, obviously, on how long you are on the computers. Again, a lot of the people who use them do not have access at home so that is the way they do things. Certainly, not everybody can afford to have the connection, a computer and everything else that they need at home to do it and so that is how they access whatever they need to access.

**CHAIR**—I think we have covered this topic very well. Thank you both very much for coming along today.

Resolved (on motion by **Mr Nairn**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 4.25 p.m.**