

SUBMISSION FROM KING ISLAND COUNCIL

INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING TERMS OF REFERENCE

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into:

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 utilization 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 rationalization of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission Review of the *Local Government (Financial Assistance) Act 1995* of June 2001, taking into account the views of interested parties as sought by the Committee.

The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

SUBMISSION FROM KING ISLAND COUNCIL

Executive Summary:

The State and Federal Governments have devolved significant issues to Local Government in terms of planning, environment, public health, financial reporting and public infrastructure without any increase in recurrent funding.

Changes to legislation that impact on Local Government happen on a regular basis and whilst other levels of Government have seen an increase in the amount of revenue they receive from public sources, there has not been any appreciable increase in funding for Local Government.

Councils are being compelled by both State and Federal Government legislation and action, to address issues associated with the implementation of national competition policy and yet are unable to share in any dividends.

Whilst legislation protects State and Federal Governments from Taxation, Local Government is required to pay Fringe Benefits Tax and GST on many operations without any compensation for either the cost of administering these taxes or their impact on local services and employment opportunities.

There are any numbers of examples of unfunded mandates that have impacted on Local Government. Councils are required to contribute to Libraries, fire services, hospitals and emergency services and yet have very little, if any say, on their operations.

On King Island, and in other areas, Commonwealth and State assets are being divested to Local Government, in some cases with small capital contributions but without any regard for the long-term impact on the community in terms of maintenance of those assets.

The Commonwealth Revenue sharing formula is seen by many in State and Federal Governments as being a handout to Local Government when in fact it should be seen for what it really is, a share of local taxation to offset agreements which enable the Commonwealth to collect Income Tax.

Similarly, claims by the State and Commonwealth that the People of King Island receive substantial contributions to power costs, general purpose grants and freight subsidies do not account for the substantial return to Government from export earnings or the dividends to Government owned entities; Electricity, forestry, Ports; as well as excise and taxation revenue.

SUBMISSION FROM KING ISLAND COUNCIL

Small, rural communities are faced with unrealistic expectations in terms of compliance with State and Commonwealth standards and legislative requirements in relation to environmental controls and other issues. These tend to be imposed on the basis of a one size fits all mentality without taking into account local conditions or the financial impacts of such decisions. Council is of the belief that because of the small population base or the local conditions, non-compliance with onerous controls may have minimal impact on the environment. The standards that are applied for water, sewerage, waste management, vegetation management, extractive industries, air quality, noise and planning controls etc, clearly have greater application and importance in urban centres and have little, if any relevance to a small Island community.

Council is concerned that Local Government is being burdened with programs, costs and non-performing assets without sufficient consideration being given to long term capacity to pay for these services and without a revenue base that enables Council to absorb cost increases over time.

There is also a need to review funding formulas for Government grants which tend to favour larger organizations with the capacity to provide substantial capital contributions. There is a need to critically examine the role of State and Commonwealth agencies in program implementation particularly where Local Government is seen by many as having the flexibility to implement innovative programs. Yet it does not have the financial capacity or resources necessary to meet unbudgeted expenditure or program commitments.

It is hoped that this inquiry will identify mechanisms and structures that might overcome these imposts. Council would also hope that this submission is of assistance to the committee in its deliberations and thanks the Minister for the opportunity to express our concerns.

SUBMISSION FROM KING ISLAND COUNCIL

Background to King Island

King Island is situated at the western entrance to Bass Strait midway between Victoria and mainland Tasmania. The island, which is 64 kilometres north to south and 27 kilometres east to west, enjoys a reputation for excellence in the production of fine beef and superior dairy products as well as magnificent seafood.

King Island has a population of approximately 1,700 permanent residents of which 800 reside in the township of Currie situated on the west coast. There are two other villages, being Naracoopa on the east coast and Grassy (a former mining town now a tourist resort & educational village) to the southeast.

King Island has all the disadvantages of a small community in terms of buying power coupled with the added cost of sea or airfreight. King Island residents and businesses are also subjected to prices for electricity and fuel that are substantially higher than on the mainland. The recruitment and retention of people with young families is a major concern because of the comparatively higher cost of living and lack of further education, training and employment opportunities.

King Island has been identified as one of the 5 Local Government areas in Tasmania that are showing the strongest decline in population. The trend over the past 10 years has been for a net migration in the order of 0.29% however these figures hide an underlying sudden drop in population with the Closure of the Grassy Mine during the 1980's. During the peak of its operations the mine employed approximately 800 people and King Island had a resident population in excess of 3,200 people. Today it is fair to say that the community is half what it used to be.

There is a particular concern that the decline in population has impacted on services available on the Island and coupled with the high cost of living puts King Island at a comparative disadvantage in attracting and retaining both skilled and unskilled labor. The small population base increases the cost and threatens the viability of community services and facilities. The statistics show that King Island rates fairly well on the average level of income, however this fails to take account of the higher cost of living and the fact that there are fewer people on low or fixed income because they recognize that they cannot afford to live on King Island and move away.

SUBMISSION FROM KING ISLAND COUNCIL

King Island makes a significant contribution to the economy of Tasmania with over 20% of the state's beef cattle and 6% of the State export income derived mainly from cheese, seafood, beef and kelp, not bad for a population of only 1,700 people and this is without the Tungsten Mine at Grassy which has the proven potential to deliver another \$25m - \$30m a year in further export dollars.

King Island is a community that has faced major problems in the past and has come out on top in many cases without significant Government support. The closure of the mine some 12 years ago and down turns in beef and sheep exports were addressed through local action, better marketing and a strategic approach to export beef and tourism promotion. The Island also has rich deposits of mineral sands and tungsten ore both of which have in the past been subject to mining operations that were discontinued partly due to high costs associated with such operations on King Island. These are currently being revitalised with a view to recommissioning and once completed will produce significant export earnings. King Island is also heavily involved with Natural Resource Management issues at both the local and regional level. These responsibilities are new responsibilities of Local Government and like many such activities require substantial funding from Council to continue.

SUBMISSION FROM KING ISLAND COUNCIL

Major Infrastructure needs:

King Island Council has been unsuccessful to date in attracting State Government assistance to enable it to meet major environmental infrastructure capital costs to enable it to comply with State Government prescriptions on water, sewage treatment, waste disposal and quarry operations.

The King Island community has, over the past 10 years, undergone a gradual transformation in terms of addressing the issues of water catchment and land use planning. That transformation has now been extended to municipal services such as water supply, rubbish, quarry operations, stormwater and sewage services.

The Council has been compelled by Government prescriptions and standards, to address these issues but has reached an impasse where the cost of constructing and maintaining new facilities is well beyond the capacity of this remote Island community of just 1,700 people.

Council is on notice that within the next 12 months it must complete the construction of a new waste disposal facility and rehabilitate the existing central waste site, construct a sewage treatment plant to address raw sewage being discharged into the ocean, establish a new quarry for road base materials and address issues of contamination and blue green algae in town water supplies.

These new projects are in addition to work that has been completed or well underway in terms of rehabilitation of former quarry sites and the construction of a storm water interception scheme for the township of Currie.

There are only 381 connections to the Currie sewerage system and 860 garbage services and without Government infrastructure funding increases in the order of up to 193 % for garbage charges and a 238 % for sewerage charges are required, ostensibly just to meet operating costs of these new systems.

This council has limited reserves and after these are applied to meet capital costs the shortfall on capital funding is in excess of \$2M. Added to this burden is the additional cost of operating new sewerage, waste management and water treatment systems under strict State Government prescriptions.

SUBMISSION FROM KING ISLAND COUNCIL

The Commonwealth Government for its part, has recognised the significant cost involved in relation to infrastructure needs and has agreed to contribute over \$600,000 towards the cost of Sewerage and water supply upgrades. This compares with only \$13,200 from the Tasmanian State Government.

The Tasmanian Premier has accepted the premise that a small population base such as exists on King Island does not have the financial capacity to fund this level of expenditure. Council's detailed funding submissions to various State Ministers, Local Members and the Premier have all been well received but have to date been unsuccessful. The Council has been locked into a corner where it must comply with State and Federal Government prescriptions and yet due to the small population base is unable to afford either the loan repayments or the recurrent operating costs of new facilities.

The one size fits all mentality applied to issues such as this, is of concern to the Council. There are only 381 premises connected to the Currie sewerage scheme and the current ocean outfall which has operated successfully for over 40 years has been very effective in discharging waste into the Southern ocean without significant adverse environmental impacts.

The location of the discharge point enables the action of wave and ocean currents to effectively dissipate and treat the sewage more effectively than any mechanical plant. To put the issue in some perspective the average merchant ship sailing the oceans would discharge more waste into the ocean than the township of Currie. Council would argue that given the next land mass West of the ocean outfall is the South American continent, the potential environmental damage that this discharge could do is comparable to the equivalent of one public "long drop" in the desert.

However, the impost on the ratepayers of King Island is such that this comparison might very well become a somewhat greener reality. The waste produced from the many thousands of cattle on the Island has a greater impact than any human waste produced. Council accepts that there are benchmarks established to protect the broader community from environmental harm and that these rules are most relevant where there are larger urban populations. However, in such circumstances not only is the volume of waste more significant, there are more people to share the cost.

SUBMISSION FROM KING ISLAND COUNCIL

Recommendation:

If there are to be blanket rules and no flexibility, then there is an obligation on both the State and Federal Governments to accept a greater share of the burden, both in terms of capital and recurrent costs for small and remote rural communities.

There are any number of aid programs that help underdeveloped overseas communities meet basic health needs in terms of water and waste management, why doesn't King Island qualify. After all, it is overseas and there are basic underdeveloped infrastructure needs.

Grant Contributions and Formula:

Many grants administered by both State and Commonwealth Governments require contributions from Local Government on a cost-sharing ratio, usually \$ for \$.

However, this method of allocating funds tends to favour larger organizations with big budgets that have the resources and the financial capacity to absorb a significantly higher proportion of the cost than smaller organizations.

Council would argue that grants should take account of the capacity of the organization to raise any required contribution towards the project under consideration. The PAYE taxation system is structured so that those on low incomes pay little if any tax whilst those on higher incomes pay proportionately more. Council is of the view that grants to Local Government should follow a similar contribution regime. Those who are seeking larger grants and have a greater capacity to cost share, should be expected to pay proportionately more than those who are seeking smaller grants.

This would enable a fairer distribution of grants across the broad spectrum of Local Government and should not impact on the amount of money being distributed by other levels of Government.

The cost to administer a \$100,000 grant is the same or similar to the cost of administering a \$1m grant but the capacity to raise the required contribution varies greatly depending on the size of the organization. A \$50,000 contribution to a \$50,000 grant by a Council with a budget of \$120m requires significantly less effort and will have significantly less impact than a similar contribution from a Council with a budget of \$5m.

SUBMISSION FROM KING ISLAND COUNCIL

The current method of distribution favours those with the financial capacity to match the grant, rather than addressing a number of issues across a broader spectrum of the community.

Recommendation:

The Government should explore the option of evaluating the criteria for contributions towards grant programs on the basis of a sliding scale where there was no requirement for contributions for eligible programs below say \$100,000 and then a gradual rise to 50 % or more for projects over \$5m.

In this way there would be an opportunity for more smaller local groups to seek funding for programs and a broader distribution of grant funding without necessarily impacting on the amount of grants to be distributed.

Financial Capacity of Local Government;

Unlike other taxation revenue, rates and charges imposed by Local Government do not have any direct correlation with household or business income and therefore the capacity of the community to pay. In smaller rural Councils the greater proportion of income is from grants or contributions that are not tied to movements in the cost of goods, services or labour. Consequently, rate increases to fund the full range of Council services must inevitably be higher than inflation if service levels are maintained and grants are not increased.

For example at King Island, the total of all rate revenue including General Rates, Water and Sewerage is estimated to be \$1.5m and this is less than the total of employee costs estimated to be \$1.7m. The predominant source of revenue to fund this shortfall, as well as the combined cost of goods and services provided by the Council, is made up from General and specific grants to the Council. Such grants do not have the capacity to grow with inflation and in many cases are fixed, requiring Council to make up any inflationary cost from other sources or cut backs to services in other areas. Local Government needs to have access to revenue from general-purpose grants that move with the general cost of goods and services and recognise its commitment to National Competition objectives.

SUBMISSION FROM KING ISLAND COUNCIL

Recommendation:

Council would again argue for the need to ensure that a fixed percentage share of GST revenue and income from National Competition payments flow through to Local Government, if there is to be greater financial security for Local Government into the future.

Rationalisation of Roles and Responsibilities:

During a recent visit to the Island, the Minister for Regional Services, Territories and Local Government, the Hon Wilson Tuckey suggested that there might be an opportunity to consolidate the administration of all Government agencies on King Island under one central management structure.

Council is not aware of any legislation or agreement that would allow such a management structure to be created or how it would operate in the context of present State, Commonwealth and Local Government financial arrangements and structures. However, a central Authority managing all the Government Controlled Trading entities and services on King Island might bring about some efficiencies and cost savings. It might also enable greater autonomy and local management with prices and service delivery determined by reference to local needs and with dividends ploughed back into more affordable services.

However, Council would need to be convinced that such outcomes are achievable without simply shifting additional costs and responsibilities from one area of Government to Local Government. Comparison of the existing arrangements with different scenarios is only worthwhile if changes are likely to improve services and produce justifiable gains for the people of King Island.

The Council is already responsible for a number of State and Commonwealth programs in Health, community services, fire services, emergency, parks, reserves and crown land management with varying degrees of assistance in terms of funding from the State or Commonwealth. In the past because the Council was seen to be the only level of Government represented on the Island, it has taken on more roles than is normal for Councils in less isolated areas. For this reason, there has previously been consideration given to the concept of a single Island authority.

SUBMISSION FROM KING ISLAND COUNCIL

Comment :

Before committing to a particular position concerning the creation of a King Island Authority the Council and the community, would need to be satisfied that this would not be another attempt to simply shift greater responsibility to Local Government, without the means to achieve satisfactory outcomes.

Auspice roles and responsibilities:

Council is also an auspice agency for a number of State and Commonwealth health and welfare programs and the interaction, supervision and resources required to fund such activities impact on the Council both in terms of staffing and financial resources of the Council.

The Natural Resource Management Group for example is funded by the Commonwealth and is involved in implementing both State and Commonwealth responsibilities in terms of land and water management and yet Council is called upon to contribute significantly to operating costs.

Council was asked to auspice a project involving public health services that included extensions to the State owned hospital facility under a Commonwealth funded program. However, when there was a shortfall in the capital cost compared to the available grant the State Government refused to make any commitment. This was despite the fact that it was the Council who had already been given responsibility to supervise the project works, without fee and was now being asked to contribute to the cost of the extensions to the State owned, asset ostensibly to provide a Commonwealth service.

Council has taken on a number of auspice roles and is seen by other levels of government and the community as the preferred supplier for such programs.

In a recent example the “King Island Supporting Disabilities” (KISD) group comprising interested parents, carers, professionals and other community members, committed to enabling the disabled adults of King Island, to achieve their full potential with a sense of pride and value applied to the Council rather than the Health Service to auspice the group because “The complexity of the health system bureaucracy does not support the flexible management required by the working group to establish a local day support and overnight respite service.”

SUBMISSION FROM KING ISLAND COUNCIL

Clearly there are problems with the State agency when the people who have to deal with them on a daily basis do not favour their intervention or involvement in program delivery.

National Competition Policy:

The State Government has compelled Council's to implement National Competition Guidelines in respect to major trading activities, most notably water supply. It has also established a number of agencies and regulatory bodies to ensure that Local Government is delivering the required outcomes.

One such agency, the "Government Prices Oversight Commission" is charged with responsibility for assessing whether local Council's are complying with Tasmania's NCP water reform obligations. Council is concerned that with all this regulation, inspection audits and controls NCP payments to the State have not been passed onto Local Councils in recognition of their achievement. Instead a large portion of the money appears to have been allocated to audit functions.

Shifting of Non performing assets to Local Government:

Council is concerned that Government agencies and semi autonomous government corporations wishing to become more commercially focused are doing so by attempting to shift responsibility for non-performing assets and community obligations onto Local Government.

The King Island Ports Authority, a subsidiary of Hobart Ports a State owned corporation has sought to transfer responsibility for the maintenance of parks that they have maintained for many years, to the Council. Council has refused to accept the transfer.

There are also huge tracts of public land across Australia that the State and Federal Governments have transferred to Local Government simply to enable the State and Commonwealth to divest itself of ongoing responsibilities for land management.

SUBMISSION FROM KING ISLAND COUNCIL

Often the land might comprise a local park or recreation area and is transferred in circumstances where the Government is threatening to dispose of the property if the Council does not accept responsibility.

In such circumstances the State or Commonwealth Government has transferred the long-term financial responsibility for the care, control and management of public land used for public purpose to Local Government. It then remains for the Council to raise sufficient revenue from limited rate revenue and charges, to provide for ongoing care and management.

On King Island the Commonwealth had owned land around the Lighthouse since before the turn of the century. Despite Commonwealth ownership, there does not appear to be any record of the Commonwealth having made any contribution towards fire hazard reduction, weed control, mowing, roads M & R etc. The Council was forced to accept this responsibility simply because the Government would not deal with the issue and the community expect that the work would be done.

Council was recently compelled to accept responsibility for the Currie Lighthouse under threat of private sale and was offered a one off capital contribution towards the substantial cost of renovation and perpetual maintenance. Most of this bequest will be spent on immediate improvements to the structure, leaving the ratepayers of King Island Council with ongoing responsibility for perpetual maintenance.

Local Government is powerless to enforce financial obligations on the Commonwealth but the Commonwealth is at liberty to change the rules overnight to make Local Government responsible for taxes and charges like FBT and GST.

Whilst Councils are being held accountable by their State Governments for asset management, the State Government freely admits to allowing assets like Naracoopa Jetty to simply rot away. A local heritage icon of great local and historical significance has been left to deteriorate to the point where the State Government will now demolish it. In negotiations with the State over this issue, they had sought to transfer ongoing responsibility for the jetty to Local Government. Such a transfer would have enabled the State to avoid the full legal and significant financial responsibility for its repair, restoration or demolition, something that it had already achieved through many years of neglect.

SUBMISSION FROM KING ISLAND COUNCIL

Comment:

Whilst Council is being held accountable for the maintenance of assets and the delivery of services under its control, it is questionable that such responsibilities are being pressed in the State and Federal arena.

SUBMISSION FROM KING ISLAND COUNCIL

Conclusion:

Council is concerned that Local Government is being burdened with programs, costs and non-performing assets without consideration being given to the long-term capacity of the local Community to pay for these services. Local Government is particularly disadvantaged because whilst it must comply with State and Commonwealth prescriptions on environment and competition policy it does not have a revenue base that can realistically absorb cost increases over time.

Grants and subsidies are not tied to movements in the cost of goods and services and it would be fairer if the formula for distributing grants recognised the capacity of the recipient to fund their proportion of the project.

The State Government needs to address community concerns in relation to delivering more appropriate and flexible approaches to health and welfare programs and together with the Commonwealth ensure that any shortfall on these projects and any other grant programs should not be the responsibility of Local Government.

The concept of establishing an Island administration would need considerably more investigation and review and should only be considered if it can be established that it was not simply an exercise to shift greater responsibility and additional financial burdens on to Local Government.

Council needs financial assistance as it is simply unable to meet the cost of major infrastructure needed to comply with State and Commonwealth Government prescriptions on water, sewage and waste management due to nature of the Island and the size of the small, isolated population.

State and Commonwealth Governments need to take greater responsibility for the non-performing assets under their control and not seek to transfer these to Local Government.

This also applies to the non-performing assets and public service functions of Government corporations and agencies as they seek to become more commercially focused.
