

# The Vacluse Progress Association

Established 1915

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The Secretary  
House of Representatives Standing Committee on Economics, Finance and Public Administration  
Inquiry into Local Government and Cost Shifting  
Parliament House  
CANBERRA ACT 2600



## At the Crossroads Discussion Paper February 2003

We respond as a ratepayer organisation within the Municipality of Woollahra, in Sydney, to some of the content of the Discussion Paper. We have preferred this method of response because we do not wish to address all the questions, and because the 'Yes/No' response format in the Questionnaire accompanying the Discussion paper does not allow for reservations and qualifications to answers. We have generally followed the sequence of the Questionnaire.

### Finance and Cost Shifting

A clear statement of the Commonwealth's policy intent in making general revenue grants to the States for local Government purposes - or directly to local councils, if that should eventuate - is desirable. Depending on what the real intent is, other things flow. Issues such as interstate distribution, minimum grants to councils, tied or untied grant arrangements, and role definition for local councils have different implications and significance, or even no relevance, according to the choice from the range of potential Commonwealth intents.

For example, a statement of the Commonwealth's intent might specify that grants are directed to councils *qua* councils, and so national issues of inter-personal and inter-state equity would be unimportant. However, if councils were viewed as representatives of all their community members, then inter-personal equity would be relevant. We find it hard to imagine a situation in which the Commonwealth would explicitly exclude councils or communities from untied grants; this is relevant in consideration of minimum grants, the rationale of which clearly lies in avoidance of exclusion. Our council area has long been recipient of the minimum grant under the present arrangements. We see no reason why our population should be treated differently from that of any other council area, and would certainly expect any future scheme of general financial assistance to local government to ensure some flow of funding proportional to our population count.

Local government revenue base issues are very important to us. Our local council exhibits a reluctance to utilise user charges for many of its human services, and so they are largely funded by ratepayers. Such services are mainly of sectional relevance, and no overt testing of user (in)capacity to pay is undertaken. Of course, there is also no testing of ratepayer capacity to pay: the council simply charges the highest permissible rate increase allowed under NSW ratepegging arrangements, supplemented on occasion by extra increases approved by the Minister. We would *not* like to see removal of ratepegging, although we could contemplate and might welcome improvements in its implementation. However, we see that as being primarily a State issue.

The virtually unlimited range of potential council activities in NSW is an important element in the financial difficulties that some councils have accrued. Another lies in accumulated debt burdens, where current revenues are arrogated to past expenditures whose utility is no longer readily apparent. Whereas Woollahra has (laudably in our view) repaid its debt in recent years from the proceeds of property sales, it has also enlarged significantly its range of human services. Ratepayers as a whole have received no benefit in this process. From this, we take the view that councils are not well placed to take on debt, since their policymaking level is too exposed to the kind of populism that demands all, and expects all, without consideration or understanding of the means of paying for it.

As noted above, the need and scope for Commonwealth support for local government depends on the objectives of the Commonwealth. The inclusion of local government in inter-governmental consultations and agreements may be appealing, but judging by the dissension that still pertains among the States, and between them and the Commonwealth under their existing arrangements, we would not have high expectations of the outcomes. Besides, local government differs in structure and role among the States, and even within them, and we think that is not a very good base from which to negotiate financial agreements involving local government as a party.

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

Submission No: .....345.....

Date Received: .....6/3/03.....

Secretary: .....

### *Infrastructure Funding*

As a ratepayer-representative body, we find much of the debate about infrastructure disturbing. We observe that there are, generally, no significant numbers of votes in drains and the like. In our long-established area, basic infrastructure (roads, footpaths, stormwater drainage, public stairs, safety fencing) is often very old. Maintenance is relatively expensive, but at some minimal level it avoids the need for replacement, and is therefore generally preferred in the interests of spreading available resources. Even so, the accounting standards require identification of the state of these assets and the estimation of costs to bring them to a reasonable standard; the number is always large, and the sub-standard assets continue to be used, (in the absence, in Woollahra, of a plan to overtake the backlog). Installed in the days when councils were really only concerned with a narrow range of activities, infrastructure expenditure now competes with the very wide range of human services for funding. It is not surprising that the generalised civic infrastructure fails to excite decision-makers or residents, who see more personal attraction in human services that relate specifically to their interests.

In theory, the infrastructure 'problem' is one of local government's own making. In practice, it has become so large as to lead us to query whether the primary responsibility for supply and management of basic community assets should be left to local councils anyway. Locally, we see our council undertaking some road responsibilities, and the State doing the rest; it is similar with stormwater drainage. We do not see much logic in the split, although we can see some justification for locally based works depots and the like.

Despite the conventional wisdom, our experience teaches us *not* to favour borrowing for local works that are a charge on ratepayers generally. This is because, at the local level, borrowing is too readily used as a substitute for financial discipline, and rapidly causes budget rigidity of a high order. The effective financial management of councils in that context is seriously compromised.

Some components of local infrastructure are being funded in Woollahra by an environmental levy, additional to the ordinary rate, and currently in its first year of operation. Our experience has not been good so far. The program of works to which the levy was allocated was taken partly from the ordinary works schedule (and so made way for others there), partly unspecified, and partly unspecified and uncoded. The accountability arrangement is thus less than perfectly meaningful. We think the levy, which has a nominal life of three years, is simply a way around the ratepegging restrictions. More to the point, it falls on ratepayers, and so adds yet again to the ladder of land-based taxation they bear. We find the logic that the proceeds are identifiable and the works defined, to be no more than we would and should expect from a proper set of municipal accounts anyway. As to the short nominal life of such a levy, we lack optimism.

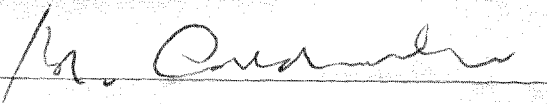
### *Rationalisation*

We have noted above our failure to see much logic in the current split of infrastructure responsibility between the State and local councils. In human services, too we see apparent fragmentation of responsibility, with councils undertaking educational (libraries), cultural (community arts), welfare (aged persons, children's services), health (vaccination), law and order (parking, litter, environmental nuisance) and other activities that fall under general headings seen as primarily the responsibility of State or Commonwealth Governments. The establishment of rules of the game in these circumstances would probably minimise confusion and might clarify funding principles. Again, however, the virtually unlimited range of activities permitted to councils in NSW is an issue.

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As we did in our original submission to the Committee, we summarise our views thus:

- Local council ratepayers should not be burdened with financial responsibility for functions other than those which relate directly to property.
- Broadly, users should pay for services.
- Commonwealth- and State-wide functions, including those related to welfare and education, that are performed by local councils should be funded by the government that requires their performance and is primarily responsible for them.

  
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4 March 2002