

PREAMBLE

The LGMA has provided input into and endorsed the national LGMA submission into the Federal Government's Cost Shift Inquiry.

This report is a compilation submission, to reflect the key issues referred to LGMA (NSW) by LGMA members and their respective councils.

LGMA (NSW) acknowledges their substantial input and contribution, and in particular the work of Morrie Daley and the Hunter Region Organization of Councils.

SUMMARY of key Issues

The roles and responsibilities of councils in New South Wales are loosely defined in the charter within the 1993 Local Government Act. The looseness of the definitions, and the specific reference to a number of Acts, aside from the Local Government Act, puts councils in a poor position to resist or moderate the devolution of responsibilities from the State Government.

The devolution of responsibilities and obligations from State Agencies grew very rapidly from around the middle of the 1990s. Part of this devolution grew out of changing societal and economic demands. As the higher levels of government have retreated from various fields, councils have been left to pick up the pieces.

The rate of growth of revenue of councils in NSW has been much slower than that of the State Government in recent years. This has made the devolution of functions particularly troublesome for councils: many do not have the resources to fund their new or expanded responsibilities.

Rate capping has been a major impediment to councils. In the 25 years of its existence, councils have been unable to gain a realistic share of the great expansion in property values, upon which rates are based.

An analysis of the other major sources of revenue for councils demonstrates that there are no counter-balancing avenues for councils to boost revenue in lieu of foregone rate revenue.

Where councils are permitted to charge for devolved responsibilities, the State Government has generally capped the amount they can charge. There are other circumstances where previously revenue-generating activities of councils have reverted back to the State. There is a large quantity of non-rateable properties within many councils; these still have to be serviced by the councils, but do not generate any income.

Relatively, there has been a fall in the proportion of total income from State grants that is available to all councils in NSW. Councils in NSW do not get a share of national competition policy funds, nor do they have access to GST funds. The funding base is insufficient to support the level of devolution and expansion of functions that has occurred.

Over the past eight years the expenditure of NSW councils has grown 10% more than their revenues. This gap is unsustainable, especially in a period of enlarging responsibilities.

A number of areas of devolution have been accompanied by funding from the State Government. The problem is that such funding is often project specific, is short-term, often requires matching funds, and is competitive. Once those funds have been expended there is no mechanism for assisting councils with on-going costs of maintaining new equipment and services.

There is little immediate prospect of broad reform of the current structure of Local Government in NSW. Councils can best improve their capacity to meet their expanded portfolio of functions, reduce service costs, and rationalise service delivery by regionalising many activities

Across NSW regional organisations of councils have been formed, but they vary greatly in their ability to achieve more efficient service delivery systems. Rationalising the roles and responsibilities of councils requires establishing the autonomy of councils, creating effective consultation with councils, and defining realistic agreed bottom-lines for council participation.

1. LOCAL GOVERNMENT CURRENT ROLES AND RESPONSIBILITIES

The Charter

The roles and responsibilities of Local Government in New South Wales are set out in the Section 8 of the Local Government Act (1993) in the form of a council's charter. The charter outlines a set of principles that are meant to assist councils in the operation of their functions. In the listing below those parts of the Charter that seem to be most closely related to the theme of this Inquiry are highlighted in bold.

The Charter enjoins councils to:

- provide directly, or **on behalf of other levels of government, after due consultation**, adequate, equitable and appropriate services and facilities **for the community**, and to ensure that those services and facilities **are managed efficiently and effectively**;
- **exercise community leadership**;
- exercise its functions in a manner that is consistent with and actively promotes the principles of cultural diversity;
- promote and to provide and plan for the needs of children;
- properly **manage, develop, protect, restore and enhance the environment of the area** for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development;
- have regard to the long term and cumulative effects of its decisions;
- bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible;
- facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government;
- **raise funds for local purposes** by the fair imposition of rates, charges and fees, by income earned from investments and, where appropriate, by borrowings and grants;

- **keep the local community and the State Government** (and through it, the wider community) **informed** about its activities;
- ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of council is affected;
- be a responsible employer.

The traditional responsibilities of roads, rates and rubbish are therefore a thing of the remote past. Local government is required to take on a wide range of responsibilities for physical amenity and safety, for the built and natural environment, for community life, support and well-being.

The issue of Cost shifting will not be resolved unless there is a cooperative approach by all levels of government. Federal, State and Local Governments should be brought together to establish broad principles to clarify the allocation of responsibilities between the different tiers of government.

The process of allocating responsibilities will need to recognise that service provision must be responsive to community needs and aspirations, particularly at the local level. It should be done in a flexible way that recognises that metropolitan councils will have a different capacity and operational context to those in rural areas. There also needs to be greater awareness of the primary role of local government in local service provision and urban management and less *ad hoc* intervention from other levels of government especially where there is a clear accountability to local communities.

It is important to note that cost shifting occurs within a wider context of increasing demands on councils from local residents and others. Councils face increasing community expectations to provide a wider range of services including social, community and economic development services, tourism facilities and cultural development. Many of these emerging community demands are for new services that have no funding arrangements, such as providing information technology services through the public library network.

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.

There are severe limitations on the revenue-raising capacity of local government. The restrictions on local government's ability to raise its own revenue through rating and fees and charges need to be removed, with appropriate checks and balances remaining. Some of the limitations of current funding arrangements are outlined below.

Rates are pegged by the State Government and are not keeping up with increasing demand and rising costs. Councils are generally going backwards financially. By way of an example, rates for 2002/03 in one Council (Parramatta) were pegged at an increase of 3.3% above the previous year, while the Council's contribution to the NSW Fire Brigades increased by 11.65%. This trend has occurred over a number of years.

There is an inability in the expanding Greater Metropolitan Regions to address the needs of an expanding business sector within the current rating restrictions.

Sydney, Newcastle, Wollongong, and Parramatta as the major centres in the Greater Metropolitan Region have seen extensive commercial development and in accordance with government policy, will continue to develop as a major focus for office, commercial, cultural and recreational development.

The valuation of commercial property in these regions has risen rapidly, however, due to the restrictions of rate pegging, Councils have little opportunity of increasing rate revenue. Councils are also losing Financial Assistance Grants (FAG) income because of a presumed revenue raising capacity that cannot, in practice, be realised.

Other Government grants are time limited, project directed, and available only on an application basis. A lot of time and effort is required for a variable and usually short-term outcome. This does not assist long-term planning and consistency of service provision.

The State Government caps statutory fees, which do not cover the costs of providing services (eg. fees for development applications).

Fines are a source of revenue. However 50% of parking enforcement revenue from three councils in NSW, for example, from the recently transferred parking patrol service, must be returned to the State Government.

User charges are limited by community service obligations (eg. accessible recreation facilities). Rental income from council property is an important revenue source where market rents can be charged; however others are heavily subsidised for community service reasons (eg. Scout halls; community centres)

There is currently no agreed process between councils and State and Federal Governments to ensure that when a service is devolved to local government it is automatically accompanied by adequate and secure funding sources. This applies not only to the devolution of services, but also to increasing accountability and reporting requirements placed on councils. For example, councils now have to prepare a wide range of reports and plans, including State of the Environment Reports, management plans, social plans and plans of management for community lands. They must comply with a wide range of State and Federal environmental, heritage and planning legislation such as the Environmental Planning and Assessment Act, Threatened Species, Rural Fires Act etc. Many of these plans and acts have detailed reporting and accountability requirements that councils must implement usually at their own cost.

As well as affecting councils' annual budgeting, these limitations make it difficult for councils to raise the capital required to replace and refurbish ageing infrastructure. Reductions in roads funding, whether permanent or temporarily "rephased", affect local government's ability to maintain infrastructure at the level expected by the community. Two examples of this are the recently announced reduction in the 2002/03 Roads to Recovery Program from the Federal Government and the gradual reduction in the Bus Route/Heavy Vehicle Subsidy from the State Government. This subsidy is reducing while the government is promoting further expansion of bus routes and allowing heavier vehicles to use the road network that will result in greater maintenance costs.

The Financial Assistance Grants received by Councils, when the local road component is excluded, has decreased in real terms. From the commencement of the revenue Sharing Grants in 1976/77 the funding was set at 2% of personal income tax collections of the previous year.

This formula was changed at Federal level in the mid-eighties; advice from the Australian Local Government Association indicates that the grants are approximately 0.07% of total tax revenue that equates to around 1.5% of personal income tax collections.

Other changes made by the State Government have had the effect of reducing revenue to councils.

The introduction of private certification of development approvals, for example, was intended to improve the efficiency of the development process by widening the number of certifiers. This has reduced the income that councils get from this source (and incidentally brought with it a train of problems arising from the fact that private certifiers are making judgements on developments whilst being paid to do so by the same developers). As councils have lost income through the introduction of private certifiers, they have also had to take on more responsibilities in relation to the introduction of integrated development processes.

3. THE CAPACITY OF LOCAL GOVERNMENT TO MEET EXISTING OBLIGATIONS AND TO TAKE ON AN ENHANCED ROLE IN DEVELOPING OPPORTUNITIES AT A REGIONAL LEVEL INCLUDING OPPORTUNITIES FOR COUNCILS TO WORK WITH OTHER COUNCILS AND POOL FUNDING TO ACHIEVE REGIONAL OUTCOMES.

Local government's capacity to meet current obligations is stretched. Restrictions on revenue-raising capacity mean that local government cannot meet the community's demand for service and cannot maintain its infrastructure. Capital expenditure falls short of the depreciation on Council's assets; the gap between capital expenditure and depreciation cannot be bridged under the current funding regime. Inevitably infrastructure assets will deteriorate in the medium to long-term. (Eg. Seawalls along the Sydney Harbour foreshore are crumbling).

Regional Capacity

However local government has the experience, expertise, capacity and community backing to take on an enhanced role in strategic planning, asset management and service provision, ***so long as there is the means to fund the additional responsibilities.*** Local government has demonstrated that it is very efficient and effective, as well as responsive as a service provider.

Some examples of an enhanced role through regional cooperation are:

- The Department of Community Services is working with councils such as Parramatta, in creating a strategy to address homelessness in western Sydney. This is an acknowledgment of the growth of homelessness in western Sydney and the need to have local strategies in consultation with local government and local service providers.
- In numerous situations, Councils can and do work with other Councils on regional policies, regional projects, and regional service delivery where the infrastructure is regionally focussed or the service clientele is from a larger catchment. The Northern Suburbs Regional Organisation of Councils (NSROC) has been successful in tackling policy and strategic issues in a regional context.

- A good example of regional cooperation is the library service, where five Councils in the Lower North Shore have combined resources supporting a common library information management system.
- Westpool is another example of regional councils coming together. In this instance seven Western Sydney Councils pool their resources to provide public liability/professional indemnity cover to its members. Over a 14-year period the initiative has proven very successful with the pool keeping member costs at a predictable and manageable level, providing increased risk management skills amongst members and retaining a financially strong organisation. Federal and State legislation is needed to support councils in cost-containment in insurance.

Across NSW there are many examples of asset and service areas where regional coordination and resource sharing are effective and efficient:

- Catchment management – management of drainage and pollution control assets within a catchment context
- Waste management – waste disposal and recycling
- Regional transport – regional transport strategies, regional traffic management and road safety and public transport
- Specialist community support services
- Affordable housing services
- Group purchasing schemes

When councils come together it is important that State and Federal governments support these initiatives. There is a much greater need for Federal government engagement in metropolitan regions and the provision of urban infrastructure. The Western Sydney Orbital is an example that has a local effect in various areas but also has State and National significance. This is the first instance of the Federal Government withdrawing from its 100% funding commitment to National Highway Construction and passing the cost to local users.

Local Placement/Local Solutions

Nevertheless, whilst there is value in regional cooperation and resource sharing, there is still a need to maintain a local focus for locally based services with a local client catchment. The responsiveness of local government to its community is its greatest strength.

Councils in rural areas in particular have been greatly affected by the privatisation of some functions, and the corporatisation of others by both Federal and State authorities.

The effects of privatisation or corporatisation have often involved the removal of employment and income from places, leaving a growing welfare problem. In a number of places the same effects have been felt because State and/or Federal Departments and Agencies have rationalised their structures, often centralising activities into major centres, leaving a raft of problems behind in the places vacated. Councils have been frequently left with the task of generating economic activity to try and arrest the decline, whilst also catering for the social needs of those directly impacted.

There is a kind of “one shoe fits all” mentality at work. The requests and obligations that have been passed down by both Federal and State Governments have been universal in nature: that is, each council in the State has been obligated in exactly the same way.

Councils are distinctively well placed to understand issues within local areas. As well, councils have very different capacities to respond, even where the devolved ideas are sensible in relation to their areas. The skills needed to handle requests/obligations devised by teams of experts within a large Sydney office are probably not going to be available in a small council where staff have to be capable of handling many tasks at a general level to keep the system going. As well, the less well-resourced councils do not have the financial bases that allow them to shift resources quickly and easily.

Structure of Government/Partnerships

Behind the issue of capacity, there is the fundamental issue of the structure of government in Australia. A major re-alignment of responsibilities for services currently provided by State Governments, such as education, health, transport and law and order, would need major restructure in the way in which we are governed. It calls into question the role of the States, and the place of local government in the Australian system. This would appear to be beyond the scope of this enquiry.

There is nevertheless some scope for achieving a rationalisation of roles and responsibilities between levels of government. Local government has the experience, expertise and the mandate to provide services to local communities. Local government could be the service provider on behalf of State and Federal government for many locally based services, so long as appropriate and permanent funding mechanisms are put in place.

At the root of the problems of devolution of functions from the higher levels of government to councils, is the fact that Local Government is not recognised in the Australian Constitution.

Local Government's place within the three-level system of Australian government is not clearly enough defined, and its rights and obligations are identified too vaguely.

Both Federal and State Governments tend to produce stereotypes of Local Government. Generally, other levels of government poorly understand the level of understanding of what Local Government can, and does, do. Notions of what Local Government *ought* to do abound, but each Agency or Department has its own opinion of what that *ought* should be. Hence the ease with which the rain of devolved functions has been foisted on councils.

Councils must have discretionary powers to decide what is important to governing their communities efficiently and effectively. Service delivery arrangements that are almost entirely top-down negate the ability of councils to reflect local communities of interest, and to create priorities and solutions to problems that are responsive to the specific needs of communities. Councils do more than just deliver services; they provide the governance structure for their communities. The more the State or Federal authorities can grow to understand this crucial fact, the easier it will be to coordinate the functional relationships between the different levels of government.

The relationship between Local Government and other levels of government, in an age of broadening responsibilities, will always be a very ragged one unless better mechanisms for consultation are developed.

Rather than the expansion of Local Government being defined through a stream of uncoordinated functional responsibilities ordained by higher levels of government, timely, meaningful and cooperative consultation should precede any functional changes.

The most basic problem with the current consultation set-up is that there are just so many Departments or Agencies that potentially could be involved in discussions. If the State and Federal Governments are truly going to consult with Local Government there needs to be much more effort put into creating whole-of-government approaches to issues so that Local Government can respond in a constructive fashion.

Cooperation, achieved through consultation, will lead to coordination.

The system should comprise a series of State-Local Government partnerships, within which the roles of each party is well understood, and their autonomy respected. The Coalition Opposition in NSW has proposed establishing a "Contract with Councils". Its aim would be to create a situation where the State Government would not be able to transfer functions and responsibilities to councils without fully explaining the impact that the changes will have. This seems to stop short of the kind of operational partnership discussed above, but at least it is recognition of the problem.

Financial Arrangements

The bottom-line to the problems of devolution is the financial bottom-line itself.

Until State and Federal authorities recognise that devolution can never be a costless exercise, the outcomes from devolving functions will always be unsatisfactory. Central to the processes of consultation that should precede any devolution should be a clear appraisal of the costs of the functional change, the relative proportions of the cost that should be borne by the State/Federal Government, and Local Government, and the capacity of councils to bear those costs.

Even if the process of devolution were to stop tomorrow (and that is unlikely), the cumulative load of new or enlarged responsibilities leaves Local Government with an on-going problem of finding the resources to do what is required.

In NSW a major part of the solution to this problem lies in allowing the councils to boost their incomes through the removal of the rate-capping system.

It was framed in a period of very high inflation. It tried to rein in council spending in an age when councils operated under very different conditions than they do today. The 1993 Local Government Act, and even the fact of devolution, has changed the whole face of Local Government management. Councils have proved that they are very effective managers.

As well, the unincorporated property values have grown enormously in most parts of NSW over the past 25 years. Councils should be able to exercise their taxing powers in relation to this fact, so that they can perform their functions in the best fashion.

A further help to enabling councils to perform their devolved duties is to control the levels of increase of Government charges so that they reflect the real capacity of councils to afford them. Conversely, the Government must understand the negative consequences of removing from councils the ability to charge for certain things that have generally been in their preserve.

Government should also be realistic about setting caps on new charges that arise out of devolution of functions. In making decisions about bottom-line considerations in relation to devolved functions the Government should have a realistic understanding of the costs of performing that function beyond the often subsidised start-up point, and how councils can recover those costs.

Finally, Governments must be realistic about the capital costs associated with devolved responsibilities and the on-going maintenance costs that accompany any capital investment.

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.

The main reason for such substantial jumps in the levels of expenditure by councils has been the explosion of responsibilities and obligations passed down by the State and Federal Governments.

There is a lack of ability to address long-term ageing infrastructure given the current financial framework. In older established areas, most of the infrastructure was built as residential areas were being developed, prior to Council being able to levy developers for contributions towards the provision of infrastructure. Therefore, as well as maintaining the infrastructures, Councils have had to fund construction from rate income or loan funds.

In the seven years from 1994-95 to 2000-2001 Local Government revenue in NSW grew by 26%. In that time expenditure grew by 33%. Clearly, the rate of growth of Local Government expenditure has been faster than its revenue growth, and the main reason has to be the load of additional functions that Local Government has had to address. (HROC report)

In 1995-96, 20 councils, out of the 177 that then existed, had an operating deficit for the year. By 2000-2001 62 councils out of 172 in NSW had an operating deficit. The growth of unfunded mandates has pushed more than one third of the councils into deficit. (HROC report)

In some cases multiple requests and obligations have been handed to councils by separate parts of the one Department, without any understanding of what each has asked. The problem for Local Government is that under the Local Government Act virtually any arm of the State Government can incorporate Local Government into their schemes. The State Government has never really considered the cumulative effects, reflected in the steep rises in Local Government expenditure over a very short period of time.

Besides the range of new responsibilities that have been passed on the councils, Local Government also has to meet State Government charges (some of which may have been in place before the devolution wave), which vary from year to year, but generally increase.

The problem with such imposts is that the levies are raised by the State Government without consultation, and by large amounts. For example in the current financial year bush fire levies have risen by a factor over three times the level of CPI increases. One HROC council reports that its Rural Fire Service contributions have increased by 166% over 8 years.

Heavy vehicle registration fees have also risen steeply. The roots of these rises lie with the Commonwealth Government, and the focus is sound (as with the bush fire levy), but the effects on council finances can be considerable.

For decades the trend has been that State and Federal government hands over responsibility for services to local government, but not the ability to fund meeting the responsibility in the long term. Inevitably the funding base erodes over time, until in many cases funding becomes the sole responsibility of local government. At this point, the community has the expectation that the services will continue, and it becomes difficult if not impossible to cut services.

There is not room in this submission to cover in detail all the areas where devolution from State and Federal Governments has occurred in recent years (see appendix).

However some general examples of cost-shifting are:

Management of roads

Roads and bridges singly make up the largest segment of council budgets. In a survey made in 2000-2001 it was estimated that the expenditure needed to bring roads in just one of the Hunter region councils up to a satisfactory standard was \$38.178 million, and the yearly cost of maintaining that standard was \$4.365 million. The maintenance program for 2000-2001 was \$5.795 million.

Clearly from these figures councils cannot bring their road assets up to a satisfactory standard with current level of expenditure. Any reduction in the source of funds, or any additional responsibilities, makes the already difficult task even more difficult.

The New South Wales Roads and Traffic Authority (RTA) have always been responsible for a percentage of certain aspects of road funding. Historically these have been based on some measure of work done or service provided. For example the Traffic Route Street Lighting subsidy was based on the differential cost of providing upgraded lights along selected traffic routes. Council's grant was simply the number of lights provided by the rate differential. The new approach by the RTA is to convert these to a grant where Council gets a fixed percentage of the budget allocation allocated to all Councils. In the first year RTA makes sure that no Council is worse off, however in subsequent years the funding level often falls behind the real costs. A similar approach is now used for Traffic Facilities. Each year the gap between the grant and the cost of the works gets larger.

Another area of additional cost to councils arising out of changes to the RTA operations concerns road safety officers. When the project was introduced the RTA gave 100% funding for the first two years.

This has been reduced to 50% funding for salary, a proportion that is committed through to 2010. Councils can also apply for specific project grants.

The effects of these changes are illustrated in the figures for Lake Macquarie. The total cost of the project has risen by 3.5% from 1996-97 to 2001-02, in which year it reached \$126,537. Council's contribution has risen by 1,233%, whilst the RTA contribution has fallen by 433%. The council now provides 51% of the funds.

Libraries

The State Government's contribution to public libraries has declined from 20% funding in the 1980's to less than 9% in the 2000's. This decline has been counterbalanced by the increasing contribution made by Local Government to a current 91% of total funding to public libraries. Yet the need for increased funding for public libraries remains. There are unmet demands in the community for extended opening hours; expanded electronic resources; improvement of print and audio visual collections; upgrading of reference collections and special services for youth, students, the elderly, Aboriginal and multicultural services. The burden is unfair and inequitable on ratepayers, particularly in the context of funding to public libraries in the States of Victoria and Queensland being almost double the per capita amount provided in NSW.

Environmental management

Changes to the *Local Government Act* in NSW gave greater responsibility to local government for ensuring environmental sustainability, and environmental management. No additional resources followed these major additional responsibilities, apart from occasional grants (on a submission basis) for bushland rehabilitation. Councils have responsibilities for environmental protection and control with insufficient resources to carry out enforcement.

There is also a range of outcomes from such things as ESD and greenhouse gas management that have caused councils costs in revising both their programs and building operations. ESD had led some councils to Environmental Management Systems (under ISO 14000) for their own operations, development and implementation of a procurement program, triple bottom line accounting, and revised works and maintenance programs. There has been significant retrofitting of council premises with energy saving devices, the development of policy and incentive mechanisms for residents, business and industry. Councils have also developed demonstration and learning programs to engage their communities.

One of the main areas in which devolution has occurred is environmental management. This has followed the embrace of ecological sustainable development (ESD) by both State and Federal Agencies following the 1992 Rio Accord. As agency by agency drew up their own responses to the challenges of ESD they incorporated local area elements that they expected to be handled by councils.

Arising out of this there are now 29 Acts and Regulations in NSW that may involve actions or responsibilities from councils giving rise to 163 separate obligations in the area of environmental protection and natural resource management.

As well, the Commonwealth Government has passed on undertakings related to greenhouse gas abatement, biodiversity, salinity, water quality, and coasts and oceans.

To give just one example of how one element of this broad canvas of obligations can swell out to create multiple demands on Local Government, consider the Hunter Catchment Blueprint. Of the 50 actions laid out in the blueprint Local Government is identified as the responsible or supporting authority for 29 actions.

In the environmental area there are many requirements for which councils are now responsible. By way of example, in Parramatta Council's 2002/03 Budget \$3 million has been provided for the environment including management of air quality, tree planting, bushland management, weed control, greenhouse emission reduction, flood risk management, stormwater, water quality and public health. Limited assistance is received from the other levels of government towards these responsibilities.

These examples cover only a portion of the wide range of responsibilities, many of them new that have incorporated councils into the statewide, multi-agency approach to environmental management in NSW. Whereas State Agencies have teams with diverse sets of skills appropriate to particular features of environmental management, councils do not. Councils have had to invest in specialist skills, purchase specialist advice, undertake research, build data banks, and undertake maintenance and regulatory work to address the new demands. In many areas of environmental management councils have had to build robust management systems to satisfy its exculpatory liability in an age of increasing litigation. Environmental links stretch back through urban and infrastructure planning and development, and natural resource and disaster management.

The full cost of all of these types of development is not known because councils have adopted different ways of bringing the costs into their accounts. One thing is clear from the evidence available, the laudable efforts to raise local area engagement of councils in a wide spectrum of environmental management activities have come at a significant cost to councils.

Graffiti removal

Recent legislation in NSW enables local government to remove graffiti on private property and public assets (such as energy, rail, road and water resources) without the owner's permission. However there is no means of funding this additional work (which would for example cost conservatively an additional \$200,000 per year in North Sydney)

Rural Fire Service and NSW Fire Brigade

The funding of the rural fire service in NSW is split between the NSW Government, the Insurance Industry, and councils. The insurance industry contributes the largest amount: 73.66% of the total. The NSW Government puts in 13%. Councils pay 13.3% of the total. Some councils argue that in fact this understates their expenditure because they have to bear administration charges that represent a further 1.7% of the total contributions. Figures supplied by Dungog council suggest that their contributions have risen by 166% over the past eight years. It further claims that Rural Fire Service program charges have increased 250% over the same period.

Under Section 50 of the Fire Brigades Act, Councils in NSW pay a levy to support the NSW Fire Brigade. Councils contribute 12.3% of the funds of the Brigade. For the financial year 2002-2003 the total contribution of all NSW councils is \$47,820,432.

This represented a 13.3% increase on the previous year's level. Some councils have argued that they cannot afford the increase since the rate pegging increase for the year is only 3.3%. In a gesture that will prove futile, some councils are stating that they will only pay a 3.3% increase. The gesture underlines the frustration of councils with the lack of consultation by the Government. Despite the fact that the large increase is a product of the extensive fires around Christmas 2001 and New Year 2002, many councils object to the increase because they feel they cannot afford to pay it.

Social Planning and Community Services

In the social and community services areas, Councils have taken on providing many services that had previously been provided by other levels of government or other providers.

Although some funding is received towards the provision of these services, other funding that had been provided to set up the services ceased after the initial set up period. Councils are generally responsible for funding the coordination and administration of these services. Community expectations mean that Council needs to at least maintain this level of coordination and administration or the quality of the services provided would fail to meet community expectations. In some instances funding could also be lost to other providers.

The 1993 Local Government Act requires councils to prepare social and community plans for their areas. This involves a good deal of consultation, research and report preparation. Because of a retreat by both Federal and State authorities from many areas of broad-based social planning and service co-ordination, the range of activities that council now have to operate in these areas has grown considerably.

Local government as a whole has had greater involvement in the provision of cultural development and tourism in the last few years. Some of these functions received assistance from other levels of government in the initial period, however, much of the funding ceased. Notwithstanding, Councils may see advantages in the continuation of these activities as a means of promoting the area both for the benefit of the community socially and for economic development.

Reductions in the subsidy received from the State Government for the Pensioners Rate Rebate Scheme has shifted costs to local government.

The scheme was introduced in 1972 with a mandatory 50% rebate on pensioners' rates up to a maximum of \$80 with the state reimbursing council the full rebate. At the same time Council provided a voluntary rebate, which was fully funded by Council, to match the mandatory rebate. This scheme continued, with increases in the maximum limit being the only change, until 1983 when the State subsidy was reduced to half of the mandatory rebate. To ease the burden on councils that had a voluntary rebate policy in existence, the State also reimbursed half of the voluntary rebate to a maximum of \$75.

In 1989 when the State Government ceased to reimburse councils for the voluntary rebate. This situation remains the same now, however, Council has reduced the maximum limit of the voluntary rebate that stood at \$210 in 1988 to its current level of \$100. By way of example, Parramatta for the year 2001/02, the cost to council of the mandatory rebate was \$926,355 while the cost of the voluntary rebate was \$721,013.

GST

Councils will also miss out on the payment of a proportion of the GST proceeds that will be passed on to the States. They have already been hit by effective double taxation resulting from some aspects of the introduction of the GST (for example, Councils have been charged for GST on disposing of vehicles on which they had already paid sales tax).

5. 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 problem with the current system of Financial Assistance Grants is not the method of distribution of the funds, rather that the funding base is too low.

The current method of equalisation whereby disadvantaged areas receive a greater proportion of funds is fair and should be continued.

However the overall funding allocation needs to be increased commensurate with the responsibilities of local government for service provision. Local government must receive a fair share of taxation receipts.