



WESTERN AUSTRALIAN
LOCAL GOVERNMENT ASSOCIATION

22 October 2002

Our Ref: MIC0059/ Final Sub

The Secretary
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
CANBERRA 2600

Dear Sir

Submission to the Inquiry into Local Government and Cost Shifting

The Association is pleased to forward its final submission to the Committee on the above Inquiry.


The Association however felt that the terms of reference were too narrow and as a consequence some points, where relevant, have been included that may relate to aspects of cost shifting by the Federal Government.

Whilst the submission provides a broad overview of a number of instances where cost shifting has occurred, the Committee should not see this as an exhaustive list of all areas but rather examples to support the various statements made in the submission.

The Association was very pleased to host the first hearing of the Committee in Perth in early August, but was disappointed that more members of the Committee were unable to attend on that occasion. We therefore encourage the Committee to make a further visit (or visits) to Western Australia and to take the opportunity to hold some hearings in the regional areas so regional Local Government can be an active participant in the process. This is even more important considering there are no members on the Committee from Western Australia.

We look forward to the outcome of the Inquiry and should you require any clarification please do not hesitate to contact me as necessary.

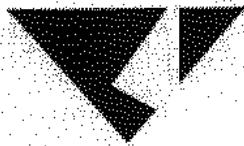
Yours sincerely


Ricky Burges
Chief Executive Officer

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:	310
Date Received:	23/10/02
Secretary:	

Local Government House
15 Altona Street
West Perth WA 6005
PO Box 1544
West Perth WA 6872

Telephone: (08) 9321 5055
Facsimile: (08) 9322 2611
Email: info@walga.asn.au
Website: www.walga.asn.au



**Western Australian
Local Government Association**

**SUBMISSION TO INQUIRY
INTO COST SHIFTING
AND LOCAL GOVERNMENT**

October 2002

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Introduction

The Western Australian Local Government Association (WALGA) has prepared this final submission in relation to the terms of reference of the House of Representatives Economics, Finance and Public Administration Committee Inquiry into cost shifting onto Local Government by State Government and the financial position of Local Government.

The Association is the peak body for Local Governments in Western Australia and represents 143 member Councils. The Association welcomes the Inquiry and the opportunity to have input on the role of Local Government and issues for consideration within the context of the scope of the Inquiry.

Due to the wide ranging nature of the terms of reference of the Inquiry this submission has concentrated on providing information in broad terms, on the changing role of Local Government and cost shifting with particular reference to both State and Commonwealth Governments. The submission highlights how the role of Local Government has evolved from the provision of basic property based services to the broader provision of community services. This evolution has been brought on by two main factors. Firstly, where Local Government initiatives have been identified and met community demands not satisfied by State and Commonwealth Governments. Secondly, where State and Commonwealth legislation has shifted responsibility for service provision to Local Government without any accompanying or inadequate funding processes.

WALGA supports the philosophy that Local Government has a right to participate as an equal partner in the Australian tripartite system of government and has a right to an equitable share of the nation's resources for this purpose. Local, State and Commonwealth Governments should respect each other's respective mandate and cooperate to ensure maximum benefit to the community. Local Government should have control and management of its own resources and must be consulted on all matters that are likely to impact on that control.

As outlined in the preliminary submission, in view of the importance to Local Government the outcome of this Inquiry will have on future direction of relationships between the levels of government, the opportunity was taken to consult with all members to obtain applicable input and comments in support of this submission. It is understood that a number of Councils have also lodged individual submissions detailing their concerns about cost shifting and providing some examples of the types of shifts that have occurred. This has been supported by several also providing evidence to the Inquiry when it sat in Perth in early August 2002.

A detailed survey was prepared and distributed to councils to elicit both anecdotal and quantitative evidence of cost shifts that have occurred over the past twenty years. A copy of the survey is enclosed at Appendix A. While it would have been beneficial to be able to provide absolutes in terms of the quantities associated with cost shifts, the reality is that without detailed analysis and research, it is simply not possible to be precise.

The reality is that cost shifting has taken place over many decades and has placed considerable pressure on Local Government finances. It has brought with it angst, resorting to alternative funding options such as increased user charges and pressures on the ability to maintain and replace assets at the appropriate levels.

TERMS OF REFERENCE 1:

Local Government's Current Roles and Responsibilities

1.1 Local Government in Western Australia

Number and Size

As outlined in the preliminary submission Local Government in Western Australia consists of 142 individual Councils on the mainland, with the Shire of Christmas Island and Shire of Cocos Islands also coming under the broad umbrella of Local Government in WA.

The size and geographic circumstances that impact on needs and hence service priorities covers an extreme range. Western Australia has not only the largest Local Government by area in Australia being the Shire of East Pilbara (378,000 sq kms) but also the smallest in area being the Shire of Peppermint Grove (1.5sq kms). In terms of population the smallest Council in Australia is also in WA being the Shire of Murchison with about 140 residents and the largest is the City of Stirling with a population approaching 180,000.

Rating continues to be the primary funding source for Councils with the City of Stirling raising over \$51m whereas at the other end of the scale the Shire of Cocos Islands raises around \$30,000. On the mainland the smallest rate income is received by the Shire of Ngaanyatjaraku of around \$40,000. These differences in geographic and demographic characteristics underline the need for a flexible and responsive system of Local Government in Western Australia.

1.2 Functions and Powers of Local Government

It is widely regarded that Local Government exists to provide a wide range of functions to the community at a local level. The establishment of these functional areas assumes that close local participation should exist in the provision of certain services, however, the rationale for the concept and its application is not always clear. Local Government's traditional core activities have centered on the provision of roads and other utilities with a growing focus on the enhancement of quality of life through the provision of civic, recreational, social and cultural amenities. There has also been an increasing trend toward social welfare, community development and environmental activities.

The *Local Government Act 1995* (the Act) provides that the state is to be divided into areas which are known as districts which are then in turn called a city, town or shire. The role of the Council is then defined in section 2.7 as:

- (1) The council –
 - (a) directs and controls the local government's affairs; and
 - (b) is responsible for the performance of the local government's functions.

- (2) Without limiting subsection (1), the council is to –
 - (a) oversee the allocation of the local government's finances and resources; and
 - (b) determine the local government's policies

Section 3.1 of the Act provides a general function power as follows:

- (1) The general function of a local government is to provide for the good government of persons on the district.

- (2) The scope of the general function of a local government is to be construed in the context of its other functions under this Act or any other written law and any constraints and imposed by this Act or any written law on the performance of its functions.
- (3) A liberal approach is to be taken to the construction of the scope of the general function of a local government.

1.3 Roles and Responsibilities of Local Government in Western Australia

The role and responsibilities of Local Government in Western Australia have changed and increased over time. As each community is faced with increasing expectations, which is more evident in the rural areas, where this has dramatically increased, due to the withdrawal of many services, by both Government and business, the community looks to Local Government to have a responsibility for more than the traditional "roads, rates and rubbish".

As a consequence Local Government has been forced to step in to support services such as medical services, schools, postal and banking services, retail fuel outlet and television, mobile phone and radio services that are not traditional Local Government services. In short these matters are falling to Local Government because of lack of service by other tiers of Government and the lack of a robust private sector in order to meet community expectations. It is often commented that because the other levels of government are more remote to the community than Local Government it is easier for them to say no to funding requests than it is for Local Government. This philosophy has been reinforced in recent hearings of the committee.

Many Councils are also finding that they need to respond to an ever increasing number of requirements under statute, which Local Government are being "forced" to undertake as legislation cites them as being part of the public sector.

Details of the services provided by Western Australian Local Government are set out in the table below.

Function	Range of Services which may be performed
Governance	Council office, Council transactions, governance, leadership, advocacy, information, pensioner rebate scheme, public relations, marketing, performance management, community consultation, agency arrangements, collection of Emergency Services Levy
Law, Order & Safety	Animal control, security patrols, public nuisances, street lighting, public space control, litter control, beach patrols, fire services, natural disaster relief and mitigation, State Emergency Services
Education and Welfare	Public awareness campaigns, community education, aged care, meals-on-wheels, home care, respite care, youth services, disability access, counselling, community development, multicultural services, support of community organisations
Health	Inspection/licensing of food and other premises, child care, community health, immunisation, hospitals
Housing	Rental housing, staff housing
Community Amenities	Refuse services/waste management, noise control, protection of the environment, town planning
Recreation & Culture	Parks, playgrounds, sporting fields and venues, swimming pools, libraries, public internet, galleries, museums, heritage, festivals, cemeteries, public halls, community art, tourism, area marketing
Transport	Roads, footpaths, traffic control, parking, public transport, ferries, barge landings, jetties, airports

Economic Services	Building control, economic development, caravan parks, camping areas, other business activities, saleyards, quarries
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As a result of the consultation with member Councils it has become very apparent that there are many services that are now considered by the community as a "right". Due to the failure of other levels of government they have ultimately been supported by Local Government at an additional cost to the community.

Some of these services have been, by default, left to Local Government to manage after State and Commonwealth Governments provide some "seed" funds and then withdraw those funds. This leaves a community expectation that the programs thus established will continue, but leaving the council and/or the community to finance them. Local Government needs firm assurances or guaranteed sources of funds if it is to be responsible for additional functions presently performed by other levels of government.

Some specific areas that would have once been described as discretionary that have been identified by Local Government as essential to ongoing welfare of the community include:

- Emergency services including police, security patrols, community safety, life saving, neighbourhood watch, aboriginal patrols, fire services on crown land,
- Aged accommodation at all levels including nursing homes
- Community counselling services
- Support to education services (eg School Chaplaincy, school parking, oval construction and maintenance)
- Welfare services across a wide spectrum (eg St John Ambulance, youth services, provision of doctors/dentist/chemist, seniors, multicultural, disability, homeless people, family/occasional care, Home and community care HACC, meals on wheels, womens refuge)
- Regional airport
- Tourism support
- Communications (eg TV transmission, post office, mobile phone towers)
- Health (eg Sewerage treatment plants, health promotion, hospital upgrade)
- Coastal management
- Cultural and heritage development
- Flood management
- Business and economic development (eg Telecentre, business enterprise centre, chamber of commerce).

Over the past ten years many legislative changes, in addition to the Local Government Act 1995, have occurred which have increased the compliance requirements, responsibilities and then in turn the way Local Government has managed its operations. These changes include:

- Disability Services Act
- Rate and Charges (Rebates and Deferrals) Act 1992
- Freedom of Information Act
- National Competition Policy
- Goods and Services Tax
- Builders Registration Act (levy)
- Inspection of Public Buildings
- Emergency Services Levy (proposed)
- State Records Act
- Building Industry Training Levy
- Dangerous Dogs Regulations
- Swimming Pool Inspections
- Landfill levy

- Environmental Protection Act
- Heritage Act

This list is not intended to be exhaustive but gives a broad overview of the potential impact.

Whilst in respect to many of the legislative changes there has been adequate consultation and Local Government has seen the merit of the proposals, very few if any, ever come with an appropriate allocation of resources. Local Government believes in being fully autonomous which includes determining its own direction without being constantly overseen by government which may make decisions, not on the good of the proposition, but the most advantageous political outcome. For example, a metropolitan coastal council raised the issue of charging for parking along the coast adjacent to beaches. The purpose was to fund the necessary maintenance of the beach rather than it being a burden on its community. The State Government simply stepped in and refused the necessary approval on the basis of the broader community is right to have free access. The State Government decision has not been accompanied by any support or funding to alleviate the community burden.

The broad observation is that as far as roles and responsibilities are concerned the Act does not give any flexibility to the evolving role of Local Government. The wide variations in the demographics and the decline in some areas require on many occasions for Local Governments to take decisive action to meet community expectations.

1.4 Summary

Local Government plays a significant role in the delivery of services to communities. Its geographic proximity, close links to the community and the growing breadth of services it provides has an impact on the whole community and their general well being. As has been acknowledged for so long, Local Government is the government closest to the people and as a consequence understands their priorities far more than the other levels of government. It is now providing a broader and more complex range of services than it has previously and has moved strongly toward the provision of human and social services. The broad capacity to deliver these services and others desired by the community are limited by the capacity for the community to pay and the limited revenue base of councils. In general, but particularly, rural Local Government in Western Australia, does not have the ability to increase its rating capacity on the basis of its population make-up. The communities cannot afford to pay for the services it demands from Local Government.

TERMS OF REFERENCE 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

2.1 Financing Local Government Services

When discussing this issue account must be taken of the wide variations in the size and demographics of Local Government in Western Australia and therefore their capacity to pay for the ever increasing costs of service delivery. These factors are further impacted by the political, economic and social forces and the differences between politics at the local level and other levels of government.

As has been mentioned on many occasions with Local Government continually being seen as closest to the people, the State Government and to a lesser degree the Commonwealth Government recognises that Local Government is the appropriate mechanism to deliver services to that community. However this concept should not be taken as an indication of the capacity to deliver more to the community without adequate funding and/or resources at by the State. There is no doubt in recent years that Local Government has been required to extend its role in the community.

The departure of institutions such as banks, post offices and health facilities coupled with decisions by successive State Governments to centralise State Government activities or offer alternative channels of delivery (not physical) has placed Councils in the position of being the mouthpiece of the community, rallying support for action, being a focus for lobby activity and providing the community with support and recovery from such actions. In many areas the Council is the last institution standing with the community seeing it as its champion for government action – be it Federal or State.

2.2 Revenue

The largest source of revenue for Local Government in Western Australia is from rates on properties, even though there are some Councils who through their unique circumstances receive substantial funding from other areas. For example the Shire of Ngaanyatjarraku has a budget in excess of \$4m but receives less than \$50,000 in rates. The reason for this imbalance is that the Shire has large tracts of non rateable land and as a consequence receives significant Government funding for specific purposes associated with indigenous communities. Overall the state average of rates as a proportion of revenue is 44%. In the metropolitan area this is an average of 55%, whereas in the South West it is around 44%, Wheatbelt 35%, Goldfields 34% and the Pilbara 27%. Other funds are received from user charges which have been an increasing component as Local Government seeks to recover some of the cost of providing the wide range of services to the community.

Significant funding is also provided to Councils through the Local Government Financial Assistance Grants (FAGS). Other benefits from the Commonwealth flow through specific purpose payments such as Roads to Recovery and children's services funding and direct program funding for such things as the Black Spot Program, Regional Solutions and Networking the Nation. Borrowings is also a source of funds but this is limited to capital and other infrastructure improvements and if anything the use of such funds adds to the operational financial pressure.

Revenue received from the State Government is negligible. Whereas in the past it has provided grant funding for a number of activities, its direct contribution for these types of activities is now restrictive and not readily available. When it is available it is generally on a cost sharing basis.

One of the issues that has been identified by many Local Governments is the erosion of income over the past 10 years through two measures. Firstly a number of user charges have been capped by the State

Government through fixing the fee that can be charged by regulation and then not having any mechanism for regular review.

Some examples identified by Councils of this type of situation include:

- **Swimming pool inspections** – fee set at \$50 per inspection when introduced more than 10 years ago and the only adjustment has to include GST. Most Councils estimate that the loss of revenue due to no increase in fees is, depending on the size of the Local Government, in the region of \$5000 to \$20,000.
- **Transport/motor vehicle licensing service** – many Local Governments provide this service in the community but the commission paid does not adequately cover the cost. There are varying estimates but it is reasonable to assess the loss at \$20,000 per annum.
- **Health fees and licenses** – this area covers many fees and licenses for health related industries such as itinerant food vendors, septic tank inspections, offensive trades, eating houses. It is suggested that many of these activities are severely. This is estimated to be in the region of \$30,000.
- **Planning development applications** – in late 2000 the State Government capped the fees that Local Government could charge for planning developments. This is estimated to cost some of the Local Governments that are very active planning wise \$300,000 to \$400,000 per year.
- **Dog license registration fees** – these are fees that are paid to Local Government to license dogs. The fee levels have not been reviewed since 1995 and as such they are now totally inadequate to meet the needs of delivering the services to community. One Council estimates that it will receive \$90,000 in revenue and cost \$130,000 to administer.
- **Expansion of rate exemptions to community groups** – this is a growing area in that many community groups such as community housing associations are being provided with former State Housing assets to manage with the inevitable outcome being that the groups seek and receive rate exemptions. Another group are aged persons accommodation ie retirement villages being run by community and church groups. Church groups are automatically exempt from rates and many of the other community groups are seeking exemptions. One Council estimates this is costing it in the vicinity of \$500,000 in lost revenue per annum. Another is suggesting \$60,000. When it is considered that many of the units in the villages sell for up to \$300,000 it seems very unfair on the balance of ratepayer community.
- **Building license fees** – these are fees paid for building applications to be approved by the Council. The fee is controlled by the State Government through regulation. The revenue loss will depend on the size of the Council. A Council (10000 population) in the South West estimates that it has a loss of \$75,000 per annum. The actual loss will depend on the size of the Council and the level of building activity.
- **Limit on minimum rates** – the Act provides limits on the amount of funds that can be raised from minimum rate to a maximum of 50% of all properties. One Council suggests that due to the nature of their district they are losing revenue approaching \$200,000. The suggestion is that this is inhibiting the ability to adequately raise revenue from the community.
- **State Agreement Acts** – the State Government from time to time as part of establishing resource development creates legislation that amongst other provisions places a limit on the amount of rates that can be raised from the site. An example of this is a \$5 billion development pays about \$700 rates. A number of Councils mainly in the north of the State are subject to a number of these agreements which in turn has a severe impact on the ability to raise rates. The State Government does not in any way compensate the Councils for this loss and generally the agreements are developed without any consultation from Local Government.

The second area is where State and Commonwealth Governments make payments to Local Government and the quantum has not been increased for many years. A good example of this is the subsidy paid by the State Government for loss on swimming pools. This subsidy was introduced by the State Government at least 40 years ago to help Councils to meet some of the huge losses that are made on running swimming

pools in the community. The original amount of subsidy was 1500 pounds and in 1966 was converted to \$3000. The amount today is still \$3000 so it has eroded significantly during that time. A reasonable estimate of revenue loss could be as high \$50,000 but are more likely to be in the range of \$25,000 to \$30,000. It has also caused many communities to significantly increase the user charge for use of the pool above that which is considered appropriate.

There is also concern that a number of other areas such as road funds, Financial Assistance grants, Home and Community Care grants, Meals on Wheels subsidy and a range of welfare type services are not keeping pace with changes in the actual cost of delivering the service. It places Local Government in the position of having to increase the cost of the services or meet the cost from general revenue which will undoubtedly cause an increase in rates.

Analysis shows that since 1974-75 the assistance from the States as a proportion of total revenue has fallen in Western Australia from 17% to 10%. This clearly demonstrates the shift that has occurred in revenue raising capacity.

A number of Councils have also raised the issue of the services for which Local Government is expected to play a part through the devolution process and yet are either not funded (eg citizenship ceremonies, rating of GTEs) or the funding is inadequate (eg graffiti removal).

In respect to Government Trading Enterprises (GTEs) it is noted that whilst they are responsible for paying the equivalent in rates to State Treasury, Local Government receives no concessions from the State to offset the lost revenue.

2.3 Competition Payments

The *Agreement to Implement the National Competition Policy and Related Reforms* signed by the Commonwealth and States in 1995 provides for the states to receive general revenue grants from the Commonwealth which reflect a share of expected revenue gains to the Commonwealth arising from state's implementation of the National Competition Policy reform agenda. The Commonwealth acknowledged that the benefits to the states from the expanded economic activity arising from economic reform would not otherwise be fully available to them and agreed to three tranches of payment.

After much debate with the WA State Government it was agreed to make limited payments to Local Government, the quantum of which nowhere near compensated for the cost of the policy implementation within the industry. The State Government promised \$4m over three years to Local Government as some level of compensation however after two payments the State Government in 2001 discontinued the payments. The Association has argued strongly that in much the same way as the Commonwealth acknowledged the inability of the states to otherwise benefit from the economic growth through improved productivity gains as a result of their limited revenue raising measures, then so too this should be acknowledged by the State Government in terms of Local Government's ability to directly access the benefits of this new wealth. Not only have Councils only received limited flow on from the State Government from this windfall but there has been no acknowledgement of the efforts of Local Government in implementing the NCP provisions. While accepting the long term benefits to the public through improvements in the efficiency of operations, the sometimes significant public outcry at changes to charging regimes for asset usage has left many Councils contemplating the broad merits of the "public interest".

The issue of NCP payments to Local Government has now become a farcical merry-go-round, where the Federal Government claims that it is a matter for the States and Local Government to resolve and the State Government claims that it is a Federal policy issues that must be resolved with the Commonwealth. As might be expected the only loser in this scenario is Local Government.

2.4 Summary

The financial relationships existing between State and Local Government are complex and somewhat anomalous in the context of State-Local financial relations more generally. They include:

- Various fees and charging arrangements that are controlled by State Government are either not commercially based or are not maintained at an appropriate level to recover Local Government costs,
- Various tax exemptions, concessions, specific purpose grants and subsidies that reduce accountability and distort decision-making, and
- Using Local Government as a source for granting exemption without appropriate recompense from Government.

Local Government will continue to rely on its traditional sources of revenue. There are few opportunities to grow these pools and the capacity within each has all but reached its limit. Private sector opportunities will continue to be assessed and partnering arrangements with the State Government for service delivery and infrastructure funding will continue to be pursued.

In summary a number of Local Governments have commented that:

- Local Government is increasingly being drawn into new areas of service provision, often without access to additional funding
- Local Government's revenue abilities have been restricted by policies imposed by other levels of government such as regulations that cap user pay charges and State Agreement Acts
- Commonwealth and State assistance has not been sufficient enough to enable Local Government to finance its expanding services

Local Government has responded in many ways, including increasing rates and user charges, contracting out, generating greater efficiencies, cutting back on non-essential services and spending less on roads and having increased borrowings.

However, without a link to some form of growth based revenue stream, the pressures on councils to continue to provide increasing services at levels that meet the expectations and requirements of users will be extremely difficult to manage.

TERMS OF REFERENCE 3:

The Capacity for 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

3.1 Capacity of Local Government to Meet Obligations

Local Government has significant obligations in respect of the provision and maintenance of infrastructure assets for local communities. This infrastructure is fundamental for the stability and growth of local and regional communities. The capacity for Local Government to do more in terms of providing services or taking an even stronger leadership role with regard to regional development is limited by its capacity to meet its infrastructure obligations.

A common theme throughout the consultation was that the smaller and more remote the Council, the greater tendency there is for it to be expected to provide a wide level of services. This comes about through the lack of other public or private sector providers and the need to fill the void. Councils are not in a position to consider the private sector provider option of specialising in particular activities or dropping off non-profitable services

3.2 Regionalisation

Local Government in Western Australia has recognised the benefits of working together. More and more Councils are sharing resources in the form of expertise and specialist personnel across boundaries through both necessity (based on cost and volume of activity) and scarcity of resources.

While largely focused on internal efficiencies, these arrangements allow Councils the opportunity to then focus on service delivery to their communities without the worry of yet another financial and resource burden on their agenda.

Western Australian Local Government has taken a long term approach on regional activities. While largely focused on cooperative effort and sharing experiences of Local Government, the tendency has over time been to move to broader functions and activities which has seen the development of formal structures such as Regional Councils.

Because of the diversity in the size and population of the Local Governments there is a wide range of regional arrangements to which Local Government is required to contribute. These include:

- Regional waste councils
- Voluntary regional organisation of Councils
- Economic alliances
- Regional tourism associations
- Regional Health scheme
- Wild dog scheme
- Regional equine officer
- Regional arts/cultural

Whilst some regional cooperation initiatives are self supporting (or nearly so) such as Regional Waste Councils the majority of regional arrangements require considerable financial support and then in turn trust between the parties. The economic reality requires the small rural/remote Councils to combine for the

basic services associated with health, building and planning as otherwise they could not justify providing them. The other issue confronting Local Government in these areas is the difficulty in being able to attract and retain professional staff. The advantage of a regional approach is not only to provide adequate work but also a variety of opportunities that are challenging and career building.

The most common regional support is in the area of tourism. Many Councils see that the opportunities that are afforded to their community by sponsoring and supporting tourism cannot be underestimated. The support however is predominately in the rural areas with limited financial support being provided in the metropolitan area as the promotion is seen to be a State Government role. As an example Broome supports regional tourism to the amount of \$125,000, Kalgoorlie-Boulder provide \$108,000 and Bunbury \$280,000. On the other hand most metropolitan Councils would provide limited support of maybe \$5000 - \$10,000.

With the desire for all levels of government to get closer to their communities it is important that when establishing new governance arrangements that Local Government is not overlooked. With each new arrangement at the regional and wider local level the resources necessary to administer, coordinate and deliver services are further dissipated. Local Government often finds itself having to become involved in these activities as its credibility at the local level will help overcome the lack of administrative and policy support that so often is missing. The strong links that Local Government has with the community and the trust and respect that this brings with it, enables the development of suitable networks to bring about necessary regional support.

3.3 Summary

The question of whether Local Government should become involved in regional activities has long since been answered. It has no choice. Pressures at the individual council level to "do more with less" and the economies of scale and mobilisation of energy and resources that can be achieved through working with others to achieve outcomes makes regionalisation a necessity. Maximising coordination, avoiding duplication and ensuring value for money in service delivery must be top of mind issues to be considered by the Committee. This could well encourage an earlier and more comprehensive engagement by the Commonwealth with Local Government on delivery mechanisms associated with regional activities.

TERMS OF REFERENCE 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

4.1 Expenditure by Local Government

Many of the Local Governments that were consulted in the research process for this submission have commented that Local Government functions and responsibilities have increased without a corresponding increase in resources with the consequence that there have been substantial changes in the composition of expenditure. These changes have been brought about by factors such as devolution, higher standards of accountability, cost shifting, increased community expectations and by individual Council policy choices.

These changes are then reflected in the way Local Government expenditure patterns have evolved which has seen:

- A move away from property based services to human services
- A decline in the relative importance of road expenditure in all its forms (1960s was about 50% of expenditure in the 90s down to 25%)
- A relative increase the importance of Recreation and Culture, Housing and Community Amenities
- An expansion of Education, Health, Welfare and Law and Order issues (4% in 1961 to 12% in 1997/98)

In addition to the changed expenditure patterns many Councils have also reported that there is a growing pressure on them to provide support to various Government agencies to deliver services to the community. Some examples of this include providing parking to schools, purchasing equipment for Police services, funding for improvements to the local hospital, funding school chaplaincy services, providing and maintaining regional airports, community safety officer, provision of pre primary facilities at non commercial rental, additional library stock to meet community demand, cultural and heritage development, retrofitted underground power, security services, communications/TV transmission and medical support.

Several items need a more detailed explanation to ensure that the impact is fully understood.

Retrofitted underground power is the programme where the State Government is taking steps to convert overhead power lines to underground with 50% of the cost being met by the Local Government. It is intended that the programme provide 50% of metropolitan properties to have underground supply by 2010. Each year at least \$10m is being provided by Local Government to implement this programme, which with few exceptions is being fully funded by an additional levy on the community. This is creating new infrastructure for the State Government power utility and the community who made the payments to make it happen, receive no concessions in the power charges. Whilst there is reasonable support for the programme it has recently been noted that State Government agencies such as the Education Department are now refusing to contribute to the programme but still receiving the benefits of the project. The shortfall must be made up by additional charges on the balance of the community.

Security services or security patrols are now a very common sight within many Local Government areas, particularly metropolitan Councils. This scheme is where a Council, in responding to community pressure brought about through lack of police resources, has initiated a private security patrol. Before the introduction of such a scheme every effort is made to improve police services but generally without success. The patrols provide varying degrees of community security at a cost of around \$25 - \$30 per household. The prime outcome is a response of somewhere between 10 and 15 minutes after a report whereas the police may never come or may take several hours.

TV transmission and communications in general is where many rural and remote Councils are being "encouraged" in order to provide a quality of life for their community to develop both TV transmission towers as well as mobile phone towers. Whilst there is a range of funding opportunities available to assist communities to receive these facilities they none the less come at a cost to the community in that there is some form of matching funds required which invariably comes from the Local Government. Where support funding is not available the cost of TV transmission tower is between \$10,000 and \$15,000 and it is necessary where the community has a number of towns to provide each with such services. The precedence set by this has encouraged telecommunication organisations to seek funding from Local Government for the construction of mobile phone towers. People in urban and built up communities across Australia have ready access to these facilities as a right. However in the less populated areas Local Government is being left to carry the cost. Once again this is a similar cost to TV transmission towers.

The final issue that needs highlighting is the considerable cost that many Councils in the rural areas need to incur to provide what are basic medical services. Many Councils financially support the housing, travel, residential accommodation and salary of both doctors and dentists. One remote Council estimates that this is a cost of \$60,000 per annum, another with a population of a little over 1000 people costs closer to \$100,000 per year. A community with a population of 1500 provides a residence and surgery at \$1 rent each per month which includes all building maintenance and assistance with gardening. The Council also has a 50% share in the dentist surgery and residence and has recently been asked to buy the pharmacy as the current pharmacist is leaving. This is some indication of the huge contributions from reasonably small budgets that have to be made to provide the basic quality of life.

4.2 Impacts of Changes in Powers, Functions and Responsibilities

Although "cost shifting" between State and Local government is the major focus of this Inquiry, a definition of the term "cost shifting" has not been outlined. A very simple definition of "cost shifting", from a local government perspective, is an increase in the cost to Local Government without an offsetting benefit. Cost shifting can occur under a variety of circumstances and it is felt that shifting costs on to Local Government, by State and Commonwealth Governments, is not good management particularly when the shift is to a body whose prime revenue source is its property base and that revenue base does not necessarily have growth potential.

In some instances, the transfer of the responsibility of the services is explicit, and direct. For example where Councils working in partnership with other levels of government agree to share the funding and be the provider of a service find themselves in the position of having to contribute higher and higher levels of funding due to the failure of the other partners to maintain an ongoing commitment to maintain and fund the service at a particular level.

In other instances the cost shift is quite subtle. For example, where there is a demonstrable community need such as the provision of accessible transport infrastructure and other spheres of government fail to acknowledge a shared responsibility for this service leaving local government to pick up the cost of its provision.

As outlined in the preliminary submission cost shifting in our view occurs when:

- Local government is required to provide services that had been previously provided by the other spheres of government;
- The requirement of other spheres of government to provide concessions and rebates and with no compensation payment.
- Services are formally referred to, and/or are assigned to local government through legislative and other State and/or Commonwealth instruments;

- Local government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state and national public good;
- Local government is required to be the sole provider of new and innovative services that have no historical funding precedent.
- Local government is required to 'pick-up' services as a result of the direct transfer of 'ownership' of infrastructure from another sphere of government.
- The level of fees that are charged by Local Government for some services have maximum amount set by State Government and there is no mechanism for regular review.
- Local government is required to adhere to imposed compliance regimes (eg. NCP) without funding assistance. The matter of compliance issues in regard to Native Title also has an impact on many Councils in WA.

The table below indicates the diversity of circumstances in which cost shifting to local government from the State Government has occurred. Each of these practices has placed significant cost pressures on council's budgets. In preparing the table it is not intended for the table to contain an exhaustive list but an indicative list only.

Table: Nature of Cost Shifting

	Types of cost shifting	Examples
1	Local government is required to provide services that had been previously provided by the other spheres of government	The provision of aged and children's services was initially funded through Federal and State Governments initiatives (usually in the form of Specific Purpose Program (SPP) funding), albeit often requiring local government matching funding. Over time Commonwealth and State funding has been reduced in real terms. Funding has not been adequately indexed, or grown to meet increased demand that has resulted from population growth. To maintain/grow these important services in their local communities in line with demand, local governments have been forced to significantly increase their funding contributions, often at the expense of other services. An example of services being provided by many councils to meet the community need is additional security services as it is considered by the community that there is insufficient police services.
2	The requirement of other spheres of government to provide exemptions, concessions and rebates to pensioners, low income earners, senior card holders, disability support recipients amongst others, with no compensation payment.	States, and increasingly the Commonwealth, often require local government to provide exemptions, concessions and rebates to pensioners, low income earners, disability support recipients amongst others, with no compensation payment. In Western Australia there are limited examples of this type of cost shift (eg dog licenses) however in recent years Councils have been required to implement the legislative changes in this area without any

		<p>recompense or reimbursement. In 2001 the State Government introduced changes to the pensioner/seniors rebate scheme and each Council was required without any compensation to amend its software system to accommodate the change. Whilst the cost varied some Councils estimated just to adjust the software on cost \$20,000. The primary reason for the high cost was the decision was not made until late on the 2000/2001 year which required enormous changes in a short time. In addition to this was the need to train staff. The introduction of GST in another example of cost shift.</p>
3	<p>Services are formally referred to, and/or are assigned to Local Government through legislative and other State and/or Commonwealth instruments</p>	<p>There are numerous examples where State and Commonwealth legislation and regulations require local government to undertake service provision, including regulatory functions. These cover such services as food inspection, enforcement of building and planning controls, environmental management functions, state records, disability services, aboriginal heritage, heritage generally, road resumptions, national competition policy, etc. These requirements are not accompanied by funding and are a direct cost to local government. Many Councils estimate that anywhere between 0.5 of a position to 20 positions have been created to cope with the changes. Costs are from \$30,000 to \$600,000 per annum. An interesting example highlights how subtle changes have a financial impact. Local Government is required from time to time to resume land. This was normally done at a minimal cost of about \$800. A recent unannounced change which has been backdated sees that cost blow out to over \$5000. There are also many examples where Local Government is required to comply with legislation simply because it is "lumped" into all embracing legislation.</p>
4	<p>Local Government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state and national public good.</p>	<p>The provision of local services and infrastructure such as local and regional roads, environmental management services and community services are often essential/important activities that, when viewed from a whole-of-network perspective provide significant local, regional, state and national public good. The provision of these services and infrastructure should not therefore be the sole responsibility of local government. They are clearly a collective responsibility and should be jointly funded by all spheres of government.</p>

5	Local government is required to be the sole provider of new and innovative services that have no historical funding precedent	<p>The provision of new and innovative services and infrastructure such as telecommunications and information technology (IT) has emerged as a critical issue in all communities. The provision, for example to access to Internet services in rural communities is a major issue for and in many cases a major cost to local government. As there has not been a historical precedent for government funding of this new innovative service, it has fallen upon local government to be the provider of these local services. However, local government believes that this type of investment clearly contributes to state and national equity objectives, and should therefore not be the sole responsibility of local government.</p> <p>The cost shift issue is not just from Government. There are many businesses that have withdrawn services from the community and Local Government is left to pick up the role. A very good example of this is banking where many Councils have initiated running of Community Banks.</p> <p>Mentioned earlier has been the impact of mobile telephone communications where Local Government is expected to assist with infrastructure. This is undertaken to meet the community expectations and to not disadvantage the residents. Provision of SBS TV repeaters is another example.</p>
6	Local Government is required to 'pick-up' services as a result of the direct transfer of 'ownership' of infrastructure from another sphere of government	<p>This type of cost shifting occurred, for example when 'Commonwealth Aerodromes' were transferred to local government, albeit with initial financial incentives. This transfer gave no consideration to the capacity of councils, particularly in remote and rural to sustain the new arrangements. The choice for councils appeared to be one of either accepting the opportunity or losing the service to the community. Councils now are responsible for the funding of these facilities without the financial or administrative capacity to sustain these services.</p> <p>The other area where this is highlighted is the transfer of heritage buildings and the State Government expectation to upgrade and manage at the Councils cost. An example is where the Council funded a \$6m restoration on the understanding of reimbursement and is now faced with uncertainty of being reimbursed. The</p>

		ongoing maintenance is likely to cost \$500,000 per annum which is at the cost of the Council..
7	The level of fees that are charged by Local Government for some services have a maximum amount set by State Government and there is no mechanism for regular review.	This situation occurs where the State Government imposes through legislation a maximum fee that Local Government can charge for a particular service that is fully administered by Local Government. The impact is that the fee is not regularly reviewed and as a consequence over time loses value against the cost of providing the service. There is no mechanism for automatic or regular reviews to be undertaken even in line with the Consumer Price Index. An example of this is fees associated with planning matters which were introduced as a form of control. The fee was introduced in December 2000 and there has been no subsequent review. There are a number of other examples. More specific details are outlined under TOR 3.
8	Local government is required to adhere to imposed compliance regimes (eg. NCP) without funding assistance.	Local Government complies with the requirements for issues such as NCP and whilst it is understood states may be recompensed Local Government in WA is denied access to any funding. More specific details are outlined under TOR 2.

Due to the diversity of the various cost shifting scenarios the ability to accurately establish the financial impact is extremely difficult. Examples outlined in the above table highlight some of the areas where changes both direct and indirect have occurred over the past decade. It is reasonable to suggest that as each level of government above Local Government has financial pressures placed upon them they then choose to pass to the lower level. Unfortunately when it reaches Local Government there is no where to pass it other than to the community who are already paying their fair share through the many taxing regimes.

Irrespective of the ability to quantify the detailed costs, it is clear that cost shifting over several decades has placed considerable pressure on Local Government finances. It has also resulted in a number of undesirable outcomes, including, declining levels of infrastructure maintenance and replacement, and increased levels of user charges.

Any requirement that means Local Government must use its own resources for activities that may be considered to be outside of their normal purview, or their direct 'traditional' area of responsibility is unacceptable. As a consequence the actions by government both State and Commonwealth has placed significant pressures on local government budgets and forms a direct cost shift.

4.3 Constitutional Recognition

Local Government is the principal means by which local and regional communities express their identity, enhance their well being, care for their environments and relate to Commonwealth and State Governments. Local Government is committed to the principles of local democracy, peace, social and economic justice and ecologically sustainable development.

Australia's constitution must recognise that the Federal system has three levels of government working in partnership. Local Government is not presently recognised in the Australian Constitution. The legal framework for council operations in Western Australia is provided by the Local Government Act 1995. Constitutional recognition in the Commonwealth will:

- Guarantee the role of Local Government across Australia ensuring people have democratically elected Councils at the local level who will provide services that meet local community needs;
- Ensure elected representatives cannot be replaced by State appointed administrators guaranteeing Local Government is run democratically by locally elected representatives;
- Confirm Local Government's role as an integral part of the public sector;
- Not erode the power of State Governments and State Parliaments will still determine how and where Local Government operates; and
- Strengthen the system of decentralised community based government ensuring communities are governed at the appropriate level and that local solutions are developed and adopted where appropriate.

4.4 Summary

Local Government's expenditure patterns reflect the significant changes in its roles and responsibilities over the past several decades. The significant shift to the provision of human services represents a major response by Local Government to addressing new and emerging needs of communities, picking up functions previously provided by State and Commonwealth Governments (and the private sector) and extending the breadth of services formerly provided by Local Government. These shifts have generally occurred without corresponding sources of funding.

TERMS OF REFERENCE 5:

The Scope for Rationalisation of Roles and Responsibilities Between the Levels of Government, Better Use of Resources and Better Quality Services to Local Communities

5.1 Changing Roles and Responsibilities

At an individual Council level there are a range of matters that have been identified as possible alterations to the existing arrangements between State and Local Governments. These include such activities as:

- Town planning approvals such as subdivision, as the local decision making process would be more responsive to the community views and needs. It also removes a duplication of roles between State and Local Government
- Main road functions such as line marking, road signs and road maintenance as this would enable a more rapid response
- Management of some services such as sewerage schemes as this would allow closer monitoring and management to suit community needs.
- Provision of utilities such as power and water as it would provide a more direct service to the community. This is particularly relevant in more remote communities.
- Management of port facilities as this would allow greater integration of transport planning and infrastructure.
- Provision of health professionals and support services to ancillary health issues.
- Economic development.
- Community facilities planning

In the broader context there are a number of areas that would benefit from rationalization of government roles and responsibilities:

- The need to avoid duplication of activities and infrastructure across the various levels of government. For example health, education and law and order are all interconnected, however accountability and responsibility are ill defined and resource duplicated.
- Need for a coordinated, coherent approach on a whole of government basis to the provision and funding of community services. The problem is that quite often these issues devolve to Local Government by default.
- There is a need to have a quick and responsive approach to emerging issues. A good example of this is the refugee issues.
- Efficient traffic and transport planning which requires long term planning and funding commitment.

Ultimately the community is focused on outcomes and seeks a consistent, coordinated approach across all levels of government for services to be delivered on time, at a reasonable cost and of high quality. The community is relatively indifferent as to what level of government is delivering what services but expects the same service no matter who is the deliverer.

On the reverse Local Government was also invited to identify any issues that in their view could be better handled at a State or Commonwealth Government level. These include:

- Collection and management of Emergency Services Levy
- Coastal management
- Coordinated regional planning and infrastructure investment planning

- Biodiversity planning to enable it to follow natural boundaries rather than administrative boundaries

5.2 Improved Use of Resources

Recent experience with Commonwealth Government programs has demonstrated the benefits of the Commonwealth having a direct relationship with Local government. The Roads to Recovery program mobilised in excess of 700 councils nationwide to identify, program and manage the funding of extensive and complex road programs. Minimal administration, reasonable criteria, a swift approval regime and a commitment to the program by councils and Commonwealth agencies streamlined the effort that would normally be associated with a funding program of such scale.

Compare this to the Black Spots and the National Heritage Trust programs. Both involved significant resourcing and administration at the State level with councils and communities required to submit detailed and complex applications, meet stringent criteria and be subject to extensive and arduous approval processes. A simplified approach through the development of a similar relationship as that associated with Roads to Recovery would likely net similar results. A strategic but simpler approach would likely provide speedier, relevant and sustainable outcomes at the local level and the Commonwealth Government needs to give consideration to such factors when developing new programs or realigning old ones.

5.3 Summary

Local Government is subject to greater scrutiny and accountability than ever before. Consultative mechanisms such as community input to finance plans, the conduct of Annual General Meetings where ratepayers and residents are encouraged to attend and participate and the public availability of indicators that enable people to make judgements on the performance of councils require councils to perform at higher levels than ever before.

Councils are not reluctant to serve their communities and will willingly take on roles that best meet the needs and desires of those communities, even if it means providing the service itself. Councils will be reluctant to take on roles from other spheres of government unless there is a corresponding funding flow. If responsibilities being undertaken by another sphere of government are transferred to Local Government, the funds, or the source of funds necessary to provide them should also be negotiated.

All governments are seeking to serve their communities but the methods of delivery of the services through cumbersome administration and convoluted programs needs to be simplified and streamlined to allow maximum benefit on the ground. Local Government wants to participate in these processes and urges the other spheres of government to consider these issues before embarking on new funding and program initiatives.

In summary it is felt that there is scope for achieving a rationalisation of roles and relationships between the levels of government, which will provide overall benefit to the community at Local, State and National levels.

TERMS OF REFERENCE 6:

The Findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 for June 2001, taking into Account the Views of Interested Parties as Sought by the Committee.

The Association generally supports the findings of the Commonwealth Grants Commission in its draft report on the Review of the Operation of the *Local Government Financial Assistance Act 1995*.

The decision by the Whitlam Government in 1975 to introduce a system of untied grants for Local Government to give it a share of the nations finances has long been applauded by Local Government and communities alike. It was considered by many to be the first stage in a process to Local Government attaining formal status in the Australian Constitution as the third sphere of government.

This has not eventuated nor has the fundamental proposition of resolving the problems associated with vertical fiscal imbalance. The Whitlam Government heralded the untied grants program as being the remedy for such ills across the country but until such time as Local Government has access to some form of growth tax, the problem will not only remain but continue to grow. This aspect was not one within the terms of reference of the review of the above legislation.