

Submission to:

House of Representatives

**Standing Committee on Economic Finance
and Public Administration**

Inquiry into Local Government and Cost Shifting

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EXECUTIVE SUMMARY

The Authority welcomes this inquiry as a responsible and timely investigation into the changing role of local government.

Changes in community expectations of service from government at all levels combined with technological, social, political and economic developments over the last decade have all led to great changes in the role that each level of government plays.

The impacts of widespread adoption of the Internet, mobile telephony, changes in social expectations regarding the environment and social justice issues and developments in economic and political management and expectations, have all reached even the most remote communities.

As a direct consequence, residents of rural and regional local government areas are now very well informed about the level of services being provided to other Australians and the need for new standards of social, environmental and economic management at a local level.

As a result, local communities are now far more informed and demanding when it comes to the services provided by their governments. Both state and federal governments are aware of this and the Authority considers that this is one of the reasons that the delivery of services has in part been shifted to local government.

Local government is also aware of the increasing level of local engagement expected by communities and has increased the range and scope of services it provides.

State and federal governments have devolved significant issues to local government in terms of planning, environment, public health, financial reporting and public infrastructure - without any increase in recurrent funding.

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

Cost shifting – the big picture

There are a large number of factors at play, all of which have led to far greater financial demands being placed on councils, without corresponding recognition of this in the way that local government is funded.

Whilst legislation protects state and federal governments from most forms of taxation, local government is required to pay fringe benefits tax and GST on many operations without any compensation for either the cost of administering these taxes or their impact on local services and employment opportunities.

There are many examples of unfunded mandates that have impacted on local government. Councils are required to contribute to libraries, fire services, hospitals and emergency services and yet have very little, if any, say in their operations.

Commonwealth and state assets are being divested to local government, in some cases with small capital contributions, but often without appropriate consideration of the longer-term cost impacts of maintaining those assets.

Many in state and federal government arenas see the commonwealth revenue sharing formula as a form of assistance to local government when in fact it should be seen as a share of local taxation.

There is also a need to review funding formulas for government grants, which tend to favour larger organisations that have the capacity to provide substantial capital contributions.

Local government is now expected - by ratepayers and other levels of government - to be a front-line provider of environmental and land-use management, community health and safety, recreational and social support services, and the like.

As a result, small, rural communities often become responsible for compliance with state and commonwealth standards and legislative requirements that may not take account of local conditions or local government's financial or management capacities.

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

There is a need to critically examine the role of state and commonwealth agencies in program implementation through local government - particularly where local government is seen by many as having the flexibility to implement innovative programs. However, local

government does not have the financial capacity or resources necessary to meet unbudgeted expenditure and program commitments.

Councils are being compelled by both state and federal government legislation to address issues associated with the implementation of national competition policy and yet are unable to share in any of the dividends.

In a broader sense, obligations have been imposed upon local government as a result of agreements made between federal and state governments and by the federal government under international conventions and agreements.

As a result of these and other factors, local councils are now providing many services that they did not 10 years ago. Some of these services have been shifted from other levels of government and some are new services being provided in response to new demands.

Resources – the challenge for local government

The over-riding difficulty is the need to resource the levels of government providing services to ensure that they can be provided in a manner that fully meets community expectations.

Our inquiries with our member councils indicate that it is difficult to quantify the additional costs they have borne from the shifting of services from other levels of government and from meeting increased local expectations. The changes have been progressive and incremental and are difficult to trace in the plethora of changes experienced by all local councils.

However, the Authority's member councils consider there is a strong need for a more realistic redistribution of commonwealth funding directly to local government. In addition, a more defined recognition of local government as a legitimate and equal partner in delivering the broader agendas currently set by commonwealth and state governments is required.

The Cradle Coast Authority was created and funded by local government, largely in response to the challenges faced by councils in meeting additional expectations and service requirements. As such, its creation is a reflection of how local government on the north west and west coasts of Tasmania has chosen to deal with these challenges.

The decision to create and *fund* a regional development body was a significant decision, given the significant financial constraints the Authority's member councils face. However, on balance at that time, those councils considered the benefits likely to outweigh the costs and this expectation is more than being met.

The Authority's existence has also been shown to be of benefit to state and federal governments, which have chosen to use it to manage the implementation of programs in the region, such as the Natural Heritage Trust and the Sustainable Regions Program.

The difficulty from the perspective of the state and federal governments is that the success of this approach with the Cradle Coast Authority is strongly related to the high level of support and ownership of the Authority by its member councils.

If, as is suspected, the federal government considers that program delivery utilising regional bodies has some advantages for it and for the regions, consideration needs to be given as to how best to encourage the development of regional bodies without compromising the value of local ownership of those bodies.

The Authority suggests one approach might be to explore the option of providing incentives to assist councils' financial participation in regional bodies. This form of assistance would remove a significant barrier that currently exists restricting the natural formation of regional bodies across the nation.

Cost shifting has occurred through a combination of legislative reform, short-term funding for projects that become long-term obligations, creation of new mandates and expectations, flow-ons from national and international agreements, and voids created by state and commonwealth governments ceasing traditional functions.

The cumulative effects of these developments are more than rural local governments can bear without serious consideration of new and innovative ways of providing, and funding, the services demanded by their communities.

INTRODUCTION

Who we are

The Cradle Coast Authority is a joint authority created to coordinate and drive economic development across the nine local government areas of northwest and western Tasmania.

The Authority's primary role is to identify regional priorities for economic development and to broker partnerships between levels of government, industry and community groups to address them.

The Authority's member Councils contribute to its core operating budget, with all regional development activities funded through partnerships and funding agreements with other bodies.

The Authority is currently engaged in 26 regional development initiatives including major infrastructure, regional tourism, natural resource management and education projects, based on partnerships with all levels of government, educational institutions and community-based bodies.

The Cradle Coast Authority is in a unique position to coordinate regional involvement in state and federal government initiatives and regional delivery of government programs. The Authority would welcome any opportunity to address the issues raised in this paper on a partnership basis with other levels of government.

In February 2002, the Cradle Coast region was allocated \$12 million under the federal government's Sustainable Regions Program. The Authority will take a central role as the nucleus of the Sustainable Regions Advisory Committee to advise the federal government on priorities for regional investment under this Program.

The Authority also has a Partnership Agreement with the state government of Tasmania, covering a range of issues including major infrastructure projects, industry development, health, education and natural resource management.

The Region covered by the Cradle Coast Authority

The Cradle Coast region includes the municipal areas of the Latrobe, Devonport City, Kentish, Central Coast, Burnie City, Waratah-Wynyard, West Coast, Circular Head and King Island Councils of northwest and western Tasmania.

The region is typical of rural and regional areas across Australia.

Accepted challenges of physical isolation have been compounded over recent years by the departure of major industrial employers and continuing rationalisation of government and corporate services.

Employment has traditionally been based on farming, forestry, retail and trade skills and most families have no direct experience of higher education. University participation rates are among the lowest in the country.

Young people leave school early to seek employment, education and training opportunities in larger centres of Tasmania or interstate and the majority do not return to work in the region.

Trends include rising unemployment, a declining, ageing population and a growing itinerant professional workforce without established links in local communities.

The August 2002 ABS labour force statistics indicate that the Mersey-Lyell region of Tasmania (which includes most of the Cradle Coast region) continues to perform poorly in the employment stakes.¹ At 10.9%, the Mersey-Lyell region now has the second highest level of unemployment in the nation. Only the Wide Bay-Burnett region in Queensland performed worse, with a slightly higher 11.0%.

10.9% is also around 2% above the next lowest Tasmanian region, Greater Hobart (8.7%) and the Tasmanian average of 8.8%.

¹ Australian Bureau of Statistics, 6202.0 Labour Force, Australia, Preliminary, Aug 2002

CURRENT ROLES AND RESPONSIBILITIES OF LOCAL GOVERNMENT

Legislated roles for local government are created by state governments under their residual constitutional powers.

As such, the local government sector is subject to commonwealth and state legislation that can vary the roles and functions of local government without any recourse by councils.

This, combined with the lack of a clearly defined and agreed set of roles and functions for this sphere of government, means that there is scope for state and commonwealth governments to use local government for delivery of some of their own responsibilities.

The closeness of local government to 'grass roots' communities has also prompted the development of new and emerging roles. Unfortunately, this has led to other levels of government utilising local government as a vehicle for targeted 'localised' service delivery – but without the balancing provision of resources.

Whilst some of the expansion of local government's roles and responsibilities relates to cost shifting, it also arises from meeting community expectations in new areas and filling voids in services in both the public and private sectors.

It is the Authority's belief that there should be a comprehensive tri-partite review of the roles and responsibilities of the three tiers of government and that this should precede a debate on the constitutional recognition of local government.

The Authority and its member councils suggest that any examination of the roles and responsibilities of local government should closely examine the roles that regional development/representative bodies can play in assisting in the cost effective delivery of services at a regional scale.

It is acknowledged that it will be difficult to reach agreement on a single, national set of clearly defined roles and functions for local government. This reflects (amongst other things) the diversity of local government as the form of government closest to the community and the welcome diversity of communities across Australia.

Despite this challenge, there are a host of reasons (as reflected in the need for an inquiry such as this) why a set of clearly defined roles and functions needs to be developed. As mentioned, the Authority is a strong supporter of the call by local government all over

Australia for constitutional recognition of these roles and functions, once they have been defined.

COST SHIFTING

Cost shifting through legislative reform

Local government has no independent powers to create legislation. The state government, however, enacts not only the legislation that creates local governments, but also supplementary legislation that imposes obligations and functions.

There have been numerous occasions over the last decade where the Tasmanian state government has passed legislation that creates new or expanded roles for local government without agreement, without corresponding implementation resources and in the absence of sufficient consultation. At times this has even occurred without local government being advised of the legislative changes affecting it, only to discover their new obligations after the event (such as recent changes to the Vehicle and Traffic Act 1999 making local government responsible for roadside vending on state roads).

Other examples include proposed air quality regulations and requirements for councils to register cooling towers and regulated air and water systems.

Of particular concern in Tasmania is the suite of environmental legislative reforms and other regulatory functions created under state statutes (such as building control, public health and town planning).

Local government is powerless to enforce financial obligations on the commonwealth but the commonwealth is at liberty to impose new taxes and charges on local government, like FBT and GST.

Cost shifting through creation of new mandates

A large portion of the additional services now being provided by local government has been imposed by 'mandate', through the building of expectations in the community (often encouraged by other levels of government) that local government can and should provide those services.

There are usually great benefits for the community arising out of the services provided as a result of these 'mandates', but the capacity of local government to resource such services is extremely limited in regional Australia.

Our member councils have informed us that it is not uncommon for council staff to be told by members of the community that various commonwealth or state government agencies have referred them to local government simply on the basis that "if it's not ours, it must be theirs".

This often happens in circumstances where there has been little or no contact with the council beforehand to establish if this is actually the case.

Such expectations are sometimes based on assumptions of local government responsibilities rather than explicit knowledge. The more this happens, the more the community expects local government to provide these services.

Examples of services now being provided by local government as a result of this type of cost shifting include state housing, road and transport matters (such as new town speed limits, wheeled devices “no go” areas, and traffic and pedestrian lights), television black-spot programs, public safety (such as policing activities), and coastal infrastructure management (such as boat ramps).

Without sustainable long-term funding mechanisms, local government cannot be expected to continue to deliver services created for it by mandate.

Cost shifting through national and international agreements

There are often major flow-on impositions on local government arising as a result of commonwealth and state governments entering national and international agreements. These include an expectation that local government will bear a proportionate (and at times even disproportionate) implementation burden for these agreements.

However there often appears to be little, if any, consultation with local government on the responsibilities it will assume for implementation of these agreements.

For example, environmental legislative instruments, such as National Environmental Protection Measures and subsequent state instruments such as Environment Protection Policies, have imposed enormous costs and service delivery burdens on local government.

In light of the wide-spread and increasing burden being imposed from such agreements, the Local Government Association of Tasmania has resolved that a high level delegation prevail upon the Tasmanian Minister for Primary Industry, Water and Environment with the intention of having this issue addressed.

Cost shifting through short-term funding of projects and programs

There is no doubt that there have been enormous benefits flowing through to local communities from projects and programs funded by state and commonwealth governments.

Unfortunately, too many of these programs are only funded in the short term – but their initial success and broad community acceptance can create expectations in the community that local government cannot maintain in the longer-term.

Examples of these types of programs include natural resource management (such as Coast Care, Water Watch, river works, and weed management), recreation, arts and culture, youth and community service programs, and television black-spot programs.

When funding runs out, communities look to their local council to continue the programs – particularly where local government had been appointed as a delivery partner. Due to the ‘remoteness’ of state and federal governments, it is far easier for them to just walk away and move on - local councils remain “on the spot” and need to deal adequately with the ongoing expectations created.

Since local government’s capacity to raise the additional revenue to fund these activities is limited, councils are sometimes placed in the position of redirecting funds from other essential activities or arguing with the community about the cessation of the new activity or raising rate levels.

Whilst local governments applying for grants have a responsibility to recognise and account for these factors before entering funding agreements, there is a growing dependence on project-based funding for functions that are becoming accepted as ongoing needs, not once-off initiatives.

On this basis, delivery of major commonwealth programs like the Natural Heritage Trust should be reviewed periodically to identify specific activities and functions that could more appropriately be resourced through ongoing funding to local government or other bodies.

Cost shifting through cessation of state and commonwealth government activities

In a climate of competing programs and limited resources, there are understandable reasons why commonwealth and state governments cease performing traditional, but discretionary, activities, as priorities change.

However, communities are reluctant to let go of services they have become accustomed to receiving and will often target councils to continue these services. This is largely because of the closer proximity and accessibility of local councils to communities and the often close ties between councils and the delivery of many state and commonwealth services.

Examples include

- inspection and certification of milk vendors
- increased role in the inspection of licensed premises
- increased demand on immunisation services provided by state government, but administered by local government

- pressure to install surveillance cameras as police presence is wound back
- state road maintenance (such as landslips)
- technical advice to the community (such as agricultural land capacity and land stability)
- health care, community programs, transport, housing, and youth services.

It is relevant to note that, for reasons of local politics, transfers of responsibilities for providing activities other levels of government are looking to cease, can be actively sought by local government. The politics of the situation may lend itself to 'local politicians' being seen to be saving the service for the community and an easy way out of responsibility for its provision by the level of government looking to discontinue.

However, even though local government may negotiate what appears to be an attractive package to assist it to provide the service, the true ongoing costs of providing or maintaining the service are often not fully understood.

The Authority suggests that there is a need to recognise that local government may not have the experience nor the resources to be able to conduct full due diligence processes in these situations and that safeguards need to be built in to protect them from unforeseen obligations that may arise.

It is suggested that a 'duty of care' should be imposed upon higher levels of government in all situations where it is agreed to transfer obligations for service provisions to local government, requiring that they retain ongoing responsibility to provide assistance where the resultant burden imposed on local government is, or becomes unreasonable.

Auspice roles and responsibilities

Member councils also act as auspice agencies for a number of state and commonwealth health and welfare programs. The interaction, supervision and resources required to host such activities impact on local government both in terms of staffing and their financial resources.

As a specific example, one of our member councils was recently asked to auspice a project involving public health services that included extensions to the state owned hospital facility, under a commonwealth funded program. However, during the project, it became apparent that the available grant was not going to cover the capital cost. Despite being the owner of the facility, the state government refused to make any commitment towards its completion, leaving the council to pick up the tab. This was in addition to the fact that the council had been required to accept responsibility to supervise the project works - without a fee.

Member councils have taken on a number of auspice roles and are often seen by other levels of government and the community as the preferred supplier for such programs.

Another recent example involved a council based group comprising interested parents, carers, professionals and other community members, committed to enabling the disabled adults of the region to achieve their full potential with a sense of pride and value. The group applied to its local council rather than the Health Service to auspice the group because "The complexity of the health system bureaucracy does not support the flexible management required by the working group to establish a local day support and overnight respite service."

This clearly demonstrates the advantages of service delivery at a localised level – but also highlights one of the primary drivers behind the shifting of service delivery from state and federal government agencies to more regional delivery – that being, it simply provides better outcomes.

National Competition Policy

The state government has compelled councils to implement National Competition Guidelines in respect to major trading activities, most notably water supply. It has also established a number of agencies and regulatory bodies to ensure that local government is delivering the required outcomes.

One such agency, the Government Prices Oversight Commission, is charged with responsibility for assessing whether local councils are complying with Tasmania's NCP water reform obligations.

The Authority is concerned that despite the obligations placed on councils as a result of NCP regulation, inspection audits and controls, NCP payments to the state have not been passed onto local councils in recognition of their achievement and the added cost burdens imposed.

The Authority argues the need to ensure that a fixed percentage share of GST revenue and income from National Competition payments flows through to local government, in recognition of the costs of compliance with NCP by local government.

Shifting of non-performing assets to local government

The Authority's member councils are concerned that government agencies and semi-autonomous government corporations wishing to become more commercially focused are doing so by attempting to shift responsibility for non-performing assets and community obligations onto local government.

For example, the King Island Ports Authority, a subsidiary of Hobart Ports (a state government owned corporation) has sought to transfer responsibility for the maintenance of parks that they have maintained for many years, to the King Island Council.

There are also huge tracts of public land across Australia that state and federal governments have transferred to local government, apparently to avoid ongoing responsibilities for land management.

In some cases, the land comprises a local park or recreation area and is transferred in circumstances where the government is threatening to dispose of the property if the council does not accept responsibility.

These transfers impose the long-term financial responsibility for the care, control and management of public land used for public purposes, onto local government.

Another recent example from King Island is the commonwealth owned land around the lighthouse. Despite commonwealth ownership for most of the 20th century, there does not appear to be any record of the commonwealth having made any contribution towards fire hazard reduction, weed control, mowing, roads etc. The Council was forced to accept this responsibility simply because the commonwealth would not deal with the issue and the community expected the work would be done.

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

It is again relevant to note that, for reasons of local politics, local government can, actively seek transfers of responsibilities for assets of this type. As with the planned cessation of services and programs previously provided by other levels of government, the politics of the situation may lend itself to 'local politicians' being seen to be saving the asset for the community and an easy way out of responsibility for its maintenance by the level of government looking to divest it.

Again, the problem of local government taking on such assets without fully understanding the true ongoing costs of maintaining them is often not fully understood.

The Authority suggests that in this situation, as with the transfer of responsibility for provision of programs and services, there is a need to recognise that local government may not have the experience nor the resources to be able to conduct full due diligence processes and that safeguards need to be built in to protect them from unforeseen obligations that may arise.

It is suggested that a 'duty of care' should be imposed upon higher levels of government in all situations where it is agreed to transfer obligations for maintaining assets to local government, requiring that they retain ongoing responsibility to provide assistance where the resultant burden imposed on local government is, or becomes unreasonable.

Environmental management

The management of the environment is one area of local government responsibility that has increased enormously in importance over the last decade.

Until recently, local government responsibility for the environment was fairly limited and related mainly to planning and environmental controls over some waste products and their disposal and some safety hazard issues. Other matters relevant to environmental management were largely the province of state government.

However, involvement in environmental management can now be said to be a primary function of local government – often in areas that were clearly state responsibility not that long ago.

However, as noted by the Burnie City Council², it is also fair to say that if the standards and responses applying then were compared to contemporary obligations and expectations today, it is apparent that both state and local governments have a considerably higher standard to meet.

The increased level of community expectations with respect to professional standards of management by councils combined with greater levels of environmental awareness has also led to heavier responsibilities in this area.

Environmental obligations have also been increasingly imposed on councils – particularly as a result of national and international agreements.

The Authority considers that greater flexibility needs to be built into the implementation of environmental controls. A 'one size fits all' approach simply is not the best way of dealing with environmental issues and if local government is the most appropriate level for delivery of these controls, it needs dedicated resources to maintain the technical and management standards demanded by community and government alike.

² Submission to Federal Government Inquiry into Local Government Cost Shifting, 2002

For example, because of their small population bases or the local conditions, non-compliance with what are often onerous environmental controls may have minimal impact on the environment in some more remote or isolated council areas.

The standards that are applied for water, sewerage, waste management, vegetation management, extractive industries, air quality, noise and planning controls etc, clearly have greater application and importance in urban centres and have little, if any relevance to some of the more remote communities.

This is not to say that rural and remote areas should be exempted from maintaining reasonable standards of public and environmental health and safety. Rather, that many of the national and international 'best practices' now enshrined in regulations may be intended to address particular issues in built-up areas that do not apply in more sparsely-populated areas with lower volumes of waste or land use pressures.

This has particular significance in terms of the infrastructure required to deal with higher standards of waste management. Rural councils with extensive, unused landfill capacity, for example, should have options to utilise this capacity fully before adopting new systems based on waste segregation and minimisation that might be of more immediate concern in urban areas.

Environmental health and safety standards should not be compromised, but councils should be allowed to phase in new facilities and practices to replace existing ones as they reach the end of their economic life.

Cumulative effects

On their own, each of the areas covered above would create more roles for local government than it can realistically resource.

The cumulative effects of all of these developments have created a situation where local government is stretched beyond its capacity.

While new roles have been created for local government, few have been removed. Nor is it in the power of local government to remove them.

FINANCIAL CONSIDERATIONS

Financial limitations on local government

Rating Levels

The principal source of own revenue for most local government authorities is rates. Rates usually only cover a council's costs of being in business – there is no “profit margin” in rates.

Unlike other taxation revenue, rates and charges imposed by local government do not have any direct correlation with household or business income and therefore the capacity of the community to pay. Indeed, the greater proportion of the income of smaller regional and isolated Councils arises from grants or contributions that are not tied to movements in the cost of goods, services or labour.

Looking at King Island as an example, the total of all rate revenue including general rates, water and sewerage is estimated to be \$1.5million. This is less than the total of employee costs estimated to be \$1.7million.

The Authority is aware that the level of rates imposed by many of its member councils upon their communities is continuing to increase well above the rate of inflation.

Quite apart from other factors (as discussed in this paper), as a direct result of the rate increases themselves, the community expectation of the services provided by local government has increased.

In addition, most of the Authority's member councils face the additional challenge of a decreasing population against which to rate and, worryingly, a continually growing amount of uncollected and uncollectible rates.

This means that the costs of meeting increasing expectations and demand for services need to be shared between those residents and property owners who remain and are paying.

Uncollectible rates are a significant problem in some of our more remote and isolated councils. For example, the West Coast Council at the end of the financial year 2001-2002 Council had outstanding rates of approximately \$1,200,000.

In some cases, the process of selling properties with outstanding rates debts incurs costs to councils greater than the proceeds from the sale of the properties. This is particularly so in areas containing unoccupied and abandoned land – a tendency that is increasing as populations decline. Owners often see their properties as worthless, because there is a limited market, or no market for their sale.

As such, property rates are not seen as a revenue source that can meet future, or even present funding needs.

State & Commonwealth Grants

The predominant source of revenue to fund the shortfall between rates revenue and service delivery costs is made up from general and specific grants.

Such grants do not have the capacity to grow with inflation and in many cases are "tied" or purpose-specific, requiring Council to make up any inflationary cost from other sources or cut backs to services in other areas.

The Tasmanian state government does not distribute national competition policy payments to local government authorities.

The only other form of revenue raising available to local government is fees and charges. In relatively static local economies such as Tasmania's, there is a very limited capacity for councils to raise additional revenue through rates or fees and charges.

To address this problem, local government needs to have access to revenue from general-purpose grants that move with the general cost of goods and services.

Added cost of 'doing business'

There is no doubt that the added cost of "doing business" in more remote and isolated local government areas has implications throughout the cost structure of councils and adds additional imposts on ratepayers when compared with other less remote councils.

Examples of higher costs facing more remote and isolated areas include: the price of petrol, higher building costs; higher costs of living; communication costs are higher as a greater proportion of calls are charged at STD rates; higher transport costs for residents and electricity and heating/cooling costs per household that are higher due to greater extremes in weather.

These higher costs demonstrate the impact on the cost of doing business both directly and indirectly and can have a major influence on the cost of attracting and retaining suitably skilled employees to undertake the increasingly complex task of providing local government services.

Additional costs are incurred when both skilled and semi-skilled staff are employed, as people are reluctant to move to more remote and isolated areas without the expectation of higher relative salaries to offset the increased cost of living and perceived 'loss of lifestyle'.

People also want to be compensated for being taken away from their “home” and relocated to an isolated area away from family and friends.

Weather delays and skill shortages also increase the costs of providing services in more remote and isolated councils.

More remote and isolated councils are also at a severe cost disadvantage when obtaining professional advice. For example, when professionals are required to attend the West Coast from other areas of Tasmania, the West Coast Council is charged with a minimum of four hours for travel from Burnie and up to eight hours if they are travelling from Hobart. On top of this is the cost of providing accommodation.

The Authority considers that issues of the type raised above need to be given more weight when determining the issue of disability factors.

Population decline

Example – West Coast Council

The estimated current population of West Coast Council is 5,600, dispersed over a geographic area of 9,200 square kilometres. The following table shows a population decrease over the period 1996 to 2001 of 11.82%.

The Council still has to provide the full range of services traditionally delivered by local government to the five major towns and services to a number of other smaller settlements. The cost of provision has not decreased with the population and this puts increased pressure on existing ratepayers to help meet this cost.

Table 1 West Coast Council – Population Variation

Year	Population	Decrement
1989	8,402	
1990	8,075	327
1991	7,664	411
1992	7,430	234
1993	7,245	185
1994	6,856	389
1995	6,465	391
1996	6,351	114
1997	6,127	224
1998	5,935	192
1999	5,695	240
2000	5,600	95

Due to the diseconomies of scale from a dispersed population over a wide area and a very low rate base, Council is being continually challenged in its attempts to provide modern facilities and services that meet appropriate standards and community expectations.

Infrastructure services provided for the residents of these towns are as follows:

Table 2 West Coast Council – Services Provided

Location	Water	Sewerage	Swimming Pool	Cemetery	Halls/ Rec.Grounds/ Public Conv.	Airports
Queenstown	✓	✓	✓	✓	✓	✓
Strahan	✓	✓		✓	✓	✓
Zeehan	✓	✓	✓	✓	✓	✓
Rosebery	✓	✓	✓	✓	✓	
Tullah	✓	✓			✓	
Trial Harbour		✓				
Granville		✓				
Gormanston	✓					
Linda	✓					

In addition, Council also provides and maintains an extensive road network in wet, mountainous terrain within the townships and to the seaside settlements.

Due to the Council's inability to raise sufficient revenue to undertake all of the work demanded by ratepayers and other statutory bodies, Council is forced into a position of minimal maintenance of existing deteriorating assets instead of planned development and programmed maintenance.

In addition, other West Coast Council resources are stretched to the limit, as resourcing is limited to providing only the most essential of services to a basic level.

Additional imposts on Council's available resources such as the development of the West Coast Wilderness (Abt) Railway and the application of a new West Coast Planning Scheme from September 2001 have all needed to be absorbed into their existing running costs.

This has occurred at the expense of other important Council work such as Risk Management.

Table 4 below shows that over the seven-year period between July 1995 and June 2001, the total grants made available to the West Coast Council, via the State Grants Commission, has reduced to \$1,089,839 in June 2001 from \$1,175,170 in 1996, a reduction in actual dollars of \$85,331. It is the West Coast Council's belief that the Consumer Price Index needs be taken into account. If we compare actual dollars received in 2001 with the amount of the 1996 grant adjusted for movements in the CPI then it would equate to a drop in grant funds of \$222,663. Since 1996 the CPI has risen by a total of 11.7% however the West Coast Council grant has decreased by 7.26%.

Table 3 West Coast Council – State Grants Commission Allocations, 1996-2002

<i>Year</i>	Allocation	Increment/ (Decrement)
1996	1,175,170	
1997	1,195,780	20,610
1998	1,139,178	(56,602)
1999	1,064,993	(74,185)
2000	1,056,112	(8,881)
2001	1,053,310	(2,802)
2002	1,089,839	36,529

The Authority argues for changes to the current formula used to distribute the Financial Assistance Grants as the declining population experienced by most of its member councils is eroding the region's share of grants and in turn forcing its member councils to demand higher revenue from their remaining population.

The Authority acknowledges that the Grants Commission incorporates a factor to assist those Councils experiencing a high level of population decline. However, it is the Authority's view that this factor does not truly address the disability a declining population can have on a council's ability to continue to provide services at a level demanded by their ratepayers, particularly in light of increasing service expectations.

Major infrastructure needs

State government prescriptions on water, sewage treatment, waste disposal and quarry operations have imposed major environmental infrastructure capital costs on our member councils without corresponding state government assistance to enable them to comply with those prescriptions.

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

Councils have largely addressed these issues to meet government prescriptions and standards. However, in many cases the cost of constructing and maintaining new facilities is well beyond the capacity of the smaller, more remote and isolated councils.

For example, King Island Council is on notice from various state and federal agencies that within the next 12 months it must:

- complete the construction of a new waste disposal facility
- rehabilitate the existing central waste site
- construct a sewage treatment plant to address raw sewage being discharged into the ocean, and
- establish a new quarry for road base materials and address issues of contamination and blue green algae in town water supplies.

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

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

This council has limited reserves and after these are applied to meet capital costs the shortfall on capital funding is in excess of \$2million. Added to this burden is the cost of

providing the treatment systems in accordance with the strict state government prescriptions.

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

This example highlights the inequity of requiring a small and remote council to comply with generic state and federal government prescriptions whilst offering no financial assistance to enable the small population base to afford either the loan repayments or the recurrent operating costs of new facilities.

The one size fits all approach applied to issues such as this is of concern to the Authority and its member councils.

The Authority and its member councils accept that there are benchmarks established to protect the broader community from environmental harm but stresses that these rules are most relevant where there are larger urban populations. In such urban areas, not only is the volume of and environmental threat from waste more significant, there are more people to share the cost of dealing with it.

Local government and the Grants Commission

While the Commonwealth and State Grants Commission distribute Financial Assistance Grants on a predetermined formula with attributed disability factors, there appears to be little recognition built into the process of the diversity of the roles and responsibilities that local government is required to perform. More importantly, there is no reward or punitive measures based on performance measurement.

There are a large number of factors that affect the decisions made by the Grants Commission in relation to commonwealth funding of local government. Many of our member councils are not satisfied as to the appropriate level of classification and consequent application of many of these factors.

Their issues include:

1. Appropriate preferred treatment zoning categorisation
2. Sufficient account being taken of isolation – particularly where state government processes have identified certain areas as isolated

3. Absentee population – eg where a council has a high level of itinerant workers. For example, the prevalent mining industry's 'outside shift worker' approach places substantially more demand on councils in this scenario than other area with higher factors of disability.
4. The very welcome renewed vigour and thrust of tourism promotion in Tasmania has also brought with it increased demands on local government for promotional funding, infrastructure, signage and facilities.

Grant contributions and formula

Many grants administered by both state and commonwealth governments require contributions from local government on a cost-sharing ratio, usually dollar for dollar.

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

The Authority argues that grants processes and matching funding requirements should weigh the capacity of individual councils to raise financial contributions against the strategic benefits of the proposal and level of need of the local community, particularly for projects addressing 'essential' services such as health and education.

As noted by the King Island Council³, the PAYE taxation system is structured so that those on low incomes pay less tax whilst those on higher incomes pay proportionately more.

The Authority accepts and supports the King Island Council's argument that grants to local government should follow a similar contribution regime. Those who are seeking larger grants and have a greater capacity to cost share, should be expected to pay proportionately more than those who are seeking smaller grants and have a more limited capacity to cost share.

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

³ Submission to Federal Government Inquiry into Local Government Cost Shifting, King Island Council, 2002

ADDRESSING THE ISSUES

Regional cooperation

Smaller regional councils have very limited capacity to meet their existing obligations, particularly in the maintenance of roads, bridges, water and sewerage infrastructure, let alone take on enhanced roles.

One direction that innovative councils are moving towards to deal with this issue is through resource sharing and it is this concept that has led to the development of the Cradle Coast Authority, a joint authority of councils set up to deal with strategic development issues across the north west and west coast of Tasmania.

As has been discussed throughout this submission, one of the primary drivers behind the shifting of delivery of services to local government has been the effectiveness, efficiency and responsiveness of local or regional delivery.

Government at the local level is the closest to the grass roots community and is best able to determine easily and quickly, where services are most needed and how best to deliver them.

The 'one size fits all' approach taken by state and federal governments to many programs is an appropriate response to the often enormous task of managing a statewide, or national program. The bureaucratic and administrative challenges of efficiently and responsively tailoring programs to individual regions would consume enormous amounts of financial resources that would, simply, be better spent providing the services.

The primary difficulty with the 'one size' approach is that the actual delivery of services at a local level is not responsive to the needs of communities with the result that when community needs and the provision of services meet, it is usually more by accident than design. Similarly, the generic approach means that often, even in the one level of government, agencies are unaware of the activities of other agencies at a regional or local level.

This is clearly not satisfactory and does not lead to the provision of the best possible services and outcomes.

However, an alternative to centrally controlled generic programs is programs designed to meet broad general policy objectives, which are then administered and implemented at a local or regional level.

Such programs enable policy objectives to be met through the delivery of services at a regional level, in a manner that is responsive to local drivers, but without the enormous administrative costs involved in trying to achieve this centrally.

As discussed this proposition has been largely accepted and a large part of the shifting of costs from higher levels of government to local government has come about as a result of it.

However, there remain a number of issues as to how best to implement state and federal government programs at a local or regional level.

These issues include the fact that appropriate resources need to be provided to meet the costs of service delivery and that not all councils have the infrastructure or expertise to provide all programs.

The Authority is of the opinion that consideration needs to be given to a coordinated regional delivery of services. In the case of the north west and west coasts of Tasmania, this could be achieved using the networks and managerial experience of the Cradle Coast Authority and on the ground, community level feedback and delivery experience of its member councils.

Regional bodies are already assuming a very important regional development role and are showing strong potential to take on significant roles in the implementation of services in other areas, including health and welfare and information services. Their particular strength is that they are close enough to local communities to be responsive, whilst still retaining an ability to effectively coordinate at a regional level.

Such a regional delivery model would have significant scope for the efficient and responsive delivery of services by all levels of government. It would also provide room for innovation in service delivery whilst allowing customisation of programs and delivery.

The Cradle Coast Authority model has proven to be an effective regional delivery mechanism for northwest and western Tasmania. The Authority is currently engaged in a Regional Partnership Agreement with the State Government, performs the role of Advisory Committee for the Cradle Coast Sustainable Regions Program and has established a Regional Natural Resource Management Committee to manage regional planning for investment of NHT2 funding.

On this basis, the Authority has also proven to be a valuable partnering mechanism for commonwealth and state governments in delivery of major programs, both in terms of

identification of regional priorities and management, administration and coordination of funding and on-ground projects.

The Authority was created and is maintained by its nine member councils partly in response to the growing range of functions and opportunities at regional scale that were beyond the traditional capacities and responsibilities of individual councils.

Importantly, the councils contribute the Authority's annual budget for its core operations. All regional development activities undertaken by the Authority are funded through partnerships with other levels of government and community and industry bodies. This funding arrangement is important because it ensures local ownership and accountability for the Authority's regional activities.

Whilst the Authority's annual budget is managed to prevent significant increases in annual contributions from the councils, all councils are under continuous pressures to reallocate resources to core responsibilities in their own communities.

Given that the Authority model, and others like it, provide a useful mechanism to address issues relating to cost-shifting at regional scale, and provide benefits to both local government members and other levels of government in regional delivery, it is reasonable to suggest that some form of incentive or assistance for involvement in regional structures be provided to local government through established grants systems.

This proposal would retain the essential local ownership and accountability of such models (which has not been a feature of state or federally auspiced models), whilst recognising the benefits flowing to other levels of government from the operation of such structures across local government boundaries.

Funder-purchaser-provider models

On the basis that local authorities can often provide a level of insight and attention to local service needs and expectations that cannot be achieved by higher and more remote levels of government, but cannot support an increased involvement in these roles from its own resources, there is considerable scope for investigation of 'hybrid' models for improved service delivery at a local scale.

One possible model that has been used extensively in government and corporate circles is the 'funder-purchaser-provider' model.

Applied to the linked issues of local delivery and cost-shifting between levels of government, this model could provide arrangements whereby the federal government provides local governments with funding resources to purchase 'shifted' services from federal, state or private providers.

This arrangement would not require local authorities to 'own' specialised skills and facilities, but rather give them the capacity to customise service delivery to specific local needs by drawing selectively on personnel and services currently available through state and federally-funded programs.

This approach would need extensive planning and evaluation through carefully-managed pilot projects, but could dramatically improve the coordination and efficiency of service delivery in areas such as community health, meeting local community expectations without transferring rate-based revenue from essential, 'traditional' functions of local government.

The Authority is very interested in developing its ideas on regional service delivery and funder-purchaser-provider models further and would be prepared to host discussions with appropriate levels of government and broker a model to allow this to happen.

CONCLUSION

The Authority is concerned that local government is being burdened with programs, costs and non-performing assets without consideration being given to the long-term capacity of the local community to pay for these services.

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

The state government needs to address community concerns in relation to delivering more appropriate and flexible approaches to health and welfare programs and together with the commonwealth ensure that any shortfall on these projects and any other grant programs should not be the financial responsibility of local government.

Local government in rural and isolated areas specifically needs financial assistance to enable it to meet the cost of major infrastructure needed to comply with state and commonwealth government prescriptions on water, sewage and waste management.

State and commonwealth governments need to take greater responsibility for the non-performing assets under their control and not seek to transfer these to local government without an acceptance of an ongoing 'duty of care'. This also applies to the non-performing assets and public service functions of government corporations and agencies as they seek to become more commercially focused.

If governments in Australia are to properly serve their communities there needs to be a more coordinated approach to service delivery.

An alternative model to that currently in place would be for each state to involve local government, at a regional level, as a full partner in deciding on the roles, functions and finances for each sphere of government. This would have beneficial flow-on effects for the commonwealth government, as there would be little dispute as to the application of funding or undertaking of services.

The Cradle Coast Authority model has worked well and has the potential to deliver far more. Its member councils would welcome the opportunity for the Authority to take a leading role in assisting in the development of similar models across the nation.

RECOMMENDATIONS

1. It is the Authority's belief that there should be a comprehensive tri-partite review of the roles and responsibilities of the three tiers of government and that this should precede a debate on the constitutional recognition of local government.
2. It is suggested that a 'duty of care' should be imposed upon higher levels of government in all situations where it is agreed to transfer obligations for service provisions or for maintaining assets to local government, requiring that they retain ongoing responsibility to provide assistance where the resultant burden imposed on local government is, or becomes unreasonable.
3. The Authority argues for changes to the current formula used to distribute the Financial Assistance Grants as the declining population experienced by most of its member councils is eroding the region's share of grants and in turn forcing its member councils to demand higher revenue from their remaining population.
4. The Authority and its member councils accept that there are benchmarks established to protect the broader community from environmental harm but stresses that these rules are most relevant where there are larger urban populations. In such urban areas, not only is the volume of and environmental threat from waste more significant, there are more people to share the cost of dealing with it.

The Authority considers that greater flexibility needs to be built into the implementation of environmental controls. A 'one size fits all' approach simply is not the best way of dealing with environmental issues and if local government is the most appropriate level for delivery of these controls, it needs dedicated resources to maintain the technical and management standards demanded by community and government alike.

5. The Authority argues that grants processes and matching funding requirements should weigh the capacity of individual councils to raise financial contributions against the strategic benefits of the proposal and level of need of the local community, particularly for projects addressing 'essential' services such as health and education.
6. Those Councils which are seeking larger grants and have a greater capacity to cost share, should be expected to pay proportionately more than those who are seeking smaller grants and have a more limited capacity to cost share.
7. The Authority is of the opinion that consideration needs to be given to a coordinated regional delivery of services. In the case of the north west and west coasts of Tasmania, this could be achieved using the networks and managerial experience of the Cradle

Coast Authority and on the ground, community level feedback and delivery experience of its member councils.

The Authority is very interested in developing its ideas on regional service delivery and funder-purchaser-provider models further and would be prepared to host discussions with appropriate levels of government and broker a model to allow this to happen.
