



29 August 2002

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

Dear Sir/Madam

RE: INQUIRY INTO LOCAL GOVERNMENT

Introduction

Mackay City Council is a large Local Authority covering an area of 2820 square kilometres with a population of around 78,000 residents. There are approximately 32,000 ratepayers. Total turnover is approximately \$110 million and annual rates collected equal \$55.5 million.

Local Government's Current Roles and Responsibilities

Mackay City Council undertakes the following activities

- Economic Development
- Strategic Planning
- Development Assessment
- Environmental Services
- Health & Regulatory Services
- Development & Subdivision Services
- Complete Approval Service
- Financial Administration, Information Technology, Customer Services and Human Resource Operations
- Community Development
- Library Services
- Corporate Communications
- Artspace
- Entertainment Centre

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- Pools
- Infrastructure Services, including Works, Technical Services, Parks & Recreation
- Water and Sewerage.

These activities are largely operated in-house. Therefore the Mackay City Council is a significant social, economic and infrastructure provider in the Community. This includes the functions of water and sewerage provision, which are not provided by a number of other states.

Current Funding Arrangements

Mackay City Council like many Local Authorities within Queensland, funds a large proportion of its operating activities through rate revenue. Rate revenue equates to close to 65% of total operating income for the year ended 30th June 2003.

User fees and charges equate to 14% of total operating income. Mackay City Council is continuing to review its user pays with the aim to maximise fees and charges where private benefit is identified. This needs to be balanced against the social impacts of significant user pay increases.

Mackay City Council undertook a major review of its Corporate Plan last year. Clearly many of the initiatives raised by the Community and included in the Corporate Plan are beyond the Council's present resourcing levels.

Operating and capital grants and subsidies form a relatively small proportion of Council's total revenue. Council's 2002/2003 budget reflects operating grants and subsidies of \$4.347 million out of a total operating income of \$76.929 million. Capital subsidies equate to 11.21% of Councils capital funding.

Clearly grants and subsidies per capita have been declining over a number of years with the result that Council has a greater reliance on rates income. The Federal Assistant Grants in particular has decreased in real terms. Detailed below are the Federal Assistance Grants that Mackay City Council has received over the last seven years:

1995/96	\$3,546,245
1996/97	\$3,569,887
1997/98	\$3,831,542
1998/99	\$3,259,965
1999/20	\$3,096,967
2000/01	\$2,942,119
2001/02	\$3,412,409

It is very apparent that the Federal Assistant Grant has significantly decreased in real per capita terms when compared to the 1995/96 Financial year. Indeed if inflation increases were applied to the 1995/96 grant the 2001/02 grant would have increased to just over \$4 million. During that time Mackay City Council, like many other Councils, has not been able to adequately fund

essential infrastructure expenditure. The result being the deterioration of Council's essential infrastructure asset base. Mackay City Council has also experienced significant growth over the last ten years, which has continued to put pressure on Council's assets.

Mackay City Council also has a relatively high level of debt and this needs to be balanced against the necessity to address significant infrastructure needs and the ability of ratepayers to fund higher debt levels. The higher level of debt is typical of Councils in Queensland who are required to fund water and sewerage infrastructure.

Capacity To Meet Obligations

Mackay City Council, like many Queensland Councils, is recognising that it has to impose real price rate increases to fund essential services and Community expectations. There have also been a number of additional expenses imposed on Council. These are as follows:

- Additional Workplace Health & Safety responsibilities,
- Risk Management issues
- Disability issues.
- Additional responsibilities under the *Environmental Protection Act 1995*
- National Competition Policy
- Waste Management Regional responsibilities
- Stormwater requirements
- *Integrated Planning Act*
- Increasing insurance costs
- Council has also incurred administration increases through a higher level of financial and reporting accountability.

Local Government Expenditure

Mackay City Council has been attempting to address essential infrastructure and community expectations. This has resulted in the above inflation rate increases, increasing loan levels and reduction in reserve funds held. Notwithstanding these increases in rates and decreasing cash levels, Council is still not able to maintain its assets at appropriate levels. Unless Council addresses these expenditure needs, there will be far greater funding burdens placed on future generations.

The devolution of State responsibilities under the *Environmental Protection Act 1995* has resulted in the establishment of the Environmental Services Section with the responsibility to implement the provisions of the Act. This has added substantially to the management costs of Council. This cost would be in excess of \$160,000.00 per annum.

There have been substantial additional cost imposed on Council in relation to Waste Management responsibilities with far greater regional responsibilities and extra expectations.

Introduction of the National Competition Policy has resulted in ongoing responsibilities for Council in relation to its type 2 and type 3 business activities. The implementation of the *Water Act 2000* has also impacted on Local Governments.

The introduction of the *Integrated Planning Act* has also had a significant impact on Council with the need to develop appropriate strategic plans. The direct cost of the new planning schemes required, out of sequence with the Legislation, is \$900,000.00. It is anticipated that the administration and legal costs associated with this Legislation will significantly exceed previously levels. This is conservatively estimated at \$150,000.00 per annum. Before the amalgamation of the Mackay City Council and the Pioneer Shire Council in 1994, individual plans were in place and under amalgamation a new plan was required.

The community demand on Mackay City Libraries continues to expand while services have also increased over the past ten (10) years. Mackay City Council last year received \$355,000 or 17.4% of Council's expenditure on its libraries; despite this it can be demonstrated that while Local Government outlays on library services have doubled in the past ten (10) years, State funding has fallen by 9%. A recent estimate demonstrated that a 40% (\$7 million) increase in state funding to libraries would be required to bring Queensland into line with other states.

Enterprise bargaining has also imposed additional costs onto Council.

Increases in public liability insurances as a result of the abolishment of the non-feasance immunity for Local Government is also significantly impacting on Council rates. Public liability insurance for Council has increased by \$179,000 over the previous year.

Council's provision of Community Services is partially dependent on fixed term Government Grants. There is an ongoing Community expectation that activities such as Crime Prevention, Arts Development Officer, LAMP and Neighbourhood Centre Worker will continue to be funded by Council once grants cease. In past years the Community Development Officer, Heritage Adviser and Asset Management received government support which is no longer available, yet Council has continued to fund these at a significant cost.

Council is facing far greater financial accountability and reporting requirements as a result of asset management requirements, National Competition Policy, GST etc.

Scope for Achieving a Rationalisation of Roles and Responsibilities

A shift in regulatory or service responsibilities from State to Local Government would require a fair share of available funds whether State or Federal.

The capacity to meet existing obligations and take on enhanced roles will vary and will depend on such factors as population, development potential, infrastructure ability to pay and location. There are a number of areas where Local Governments the size of Mackay, could assist smaller Shires within its region such as IT, Finance, Human Resource, Health Issues etc, to create rationalisation in activities across Councils.

A regional approach to Environmental (Waste) Services is appropriate. Collaboration with surrounding Shires and the Environmental Protection Agency has been successful.

Mackay City Council's Water and Sewerage business assumes a greater regional role in the provision of services to other communities.

Local Governments should also continue to explore private enterprise partnerships for significant infrastructure where affordability is an issue. Obviously there are many issues to be considered in relation to various schemes such as transfer of risk, financial implications etc.

Health services and the 50km road limit are other examples of activities that can be considered on a regional basis.

There is no question that there are a number of activities and functions, which could be provided more efficiently through Local Government. Example of responsibilities where Local Authorities have become involved in are aged accommodation, youth and disability. Although grants can be sourced for these programs, unfortunately they are generally fixed term and often local authorities then have community expectation to continue to fund in the future from rates.

Councils need to be very aware of costs imposed on Local Government resulting from State and Federal Government Regional initiatives. It is estimated that devolution of responsibility from State and Federal Government would equate to at least 5% of Mackay City Council's total operating costs.

This Council is not prepared to take on additional responsibilities unless there is long term indexed funding available to compensate, otherwise Council will continue to struggle to meet community expectations.

Conclusion

Mackay City Council, like many Queensland Councils, has to continue to balance Community expectations, infrastructure needs, social and environmental issues with the ability of the Community to fund these needs.

Mackay City Council has extra pressures in relation to its urban and rural areas. The city has a different urban spread compared to many other areas and there is the need to develop low-lying areas. These issues impact heavily on Councils roads, drainage, water and sewerage infrastructure costs.

The heavy reliance on rate income continues to be of a major concern to Council and a very robust financial strategic planning exercise is currently in progress. Council is also currently undertaking a major core business review exercise with the aim to improve Council's efficiencies and manage future rate increases.

It is very clear that the average annual growth in Commonwealth and State Government support to Local Government has been below that of total Local Government revenue. The

result of this is heavier reliance on Council's own sources of funding than what is received from State and Federal Government. This has resulted in a shifting of the tax base.

While Council appreciates and endorses the Senates inquiry, it is important that the senate is made aware of the community's expectations and Council's lack of ability to fund these expectations

Yours faithfully

A handwritten signature in black ink, appearing to read 'Dan McKinlay', with a large circular flourish at the end.

Dan McKinlay

EXECUTIVE MANAGER FINANCIAL AND INFORMATION SERVICES