



ORANGE

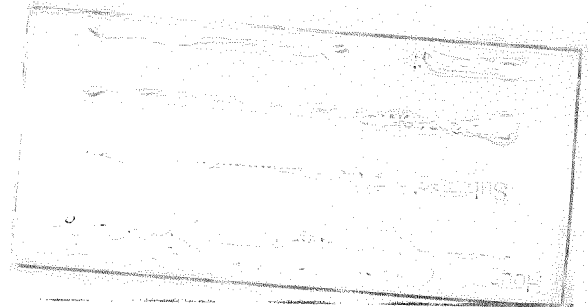
Australia's Colour City

ORANGE CITY COUNCIL

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2 July, 2002

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



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

Submission No: 8

Date Received: 7/7/02

Secretary: *Bardell*

Dear Sir

INQUIRY INTO LOCAL GOVERNMENT & COST SHIFTING

The attached report from the General Manager, Mr Allen Dwyer, to Council's Finance Committee meeting of 20 June 2002, addresses the issues that form the terms of reference into the Inquiry into Local Government and Cost Shifting.

This subject has been prominent in our Council for a long time and the source of many discussions. The issue of the diminishing Financial Assistance Grants and the varying amounts paid in Library grants by the States are just two issues addressed in the attached report.

Attached also is an article which appeared in the local paper on 6 May 2002 that also deals with similar matters.

I trust the information provided will be of some assistance in the deliberations of the Committee and that some equity will be established for Local Government in carrying whilst providing services that are the domain of State and Federal Governments.

Yours sincerely

Christine Hannus
DIRECTOR CORPORATE SERVICES

REPORT TO FINANCE COMMITTEE MEETING OF 20 JUNE 2002

FROM GENERAL MANAGER

SUBJECT FINANCIAL RESPONSIBILITY OF FEDERAL AND STATE GOVERNMENTS TO LOCAL GOVERNMENT

DATE 17 JUNE 2002

020.04.09

The purpose of this report is to reiterate to Council and endeavour to at least partially inform the community of the inequitable treatment of local government as an industry by both the State and Federal Governments. Local government is referred to as the third tier of government - however, it has no constitutional recognition, no power, except for what the State Governments permit by legislation and very little ability to obtain revenue by way of taxation. It is certainly the most accountable form of government as its members and staff are geographically very close to the constituents and its individual policies and philosophies are not necessarily controlled by the major political parties.

There is no political bias in the information presented and the opinions proffered as all major parties have been unified in their unfair treatment of local government. The one recent exception would seem to be the actions of the current State Government in regard to the public liability issue now facing Councils and, of course, most of the individual people in the community. In this matter one could be cynical and note that no action was forthcoming from the State Government until there was a major outcry from all sections of the community as a result of functions being cancelled and facilities closed. Nevertheless, the State Government has responded well.

The public liability issue is just one of the infrastructure aspects of local government which literally had to "fall over" before either of the other tiers of government took any notice and rectification procedure.

There are many other infrastructure aspects of local government on a national basis which are on the brink of "falling over". A recent comprehensive study conducted by the Local Government Association of South Australia found on average that the annual rate of deterioration induced depreciation of the local road network in South Australia is three times greater than growth in the level of expenditure on replacement/rehabilitation. This finding is consistent with a similar previous study of asset management by local governments commissioned by the Victorian Government.

On a national basis local government employs 140,000 people and expends almost \$15 billion annually. Australia has some 811,000 kilometres of roads. Local government is responsible for 80% of this national road network. In New South Wales alone, there are many hundreds, if not thousands, of timber bridges on rural roads which need replacing urgently. An audit of these structures as to the state of maintenance and the cost of restoring such assets would return a frightening result.

The recent decision of the High Court to abandon the principle of non-feasance as a defence for Councils for the public use of roads and bridges will almost certainly result in roads and bridges being closed where there is inadequate funding to properly inspect and maintain such infrastructure. I am sure this action will cause a flurry of activity from the State and Federal Governments to ensure some emergency funding is provided to reopen such roads and bridges.

There are numerous community halls, showground facilities, sportsgrounds, parks and gardens, swimming pools, libraries, function centres, art galleries and many other essential components of community life across the nation which require a financial contribution from the general revenue of a Council to survive. A user pays attitude can be invoked to some extent on some of the facilities; however, revenue obtained from the users in a lot of respects will certainly not meet the cost of providing the essential infrastructure. In many cases, Councils simply do not have, and do not have the ability to raise, the funds required to continue to provide the infrastructure expected and even demanded by communities. The few large and heavily populated metropolitan Councils would be the exception to the general situation.

As stated, local government is the most accountable level of government. The true cynic might of course believe it is the only accountable form of government due to the absence of influence from the major political parties. This accountability is a major contributing factor to the overall decline of the infrastructure of many local government communities. Councils are unwilling to impose higher rates and user pay fees which might cause hardship to individuals in the community. This philosophy results in a less than responsible attitude being taken in allocating sufficient resources to maintain infrastructure. Individual ratepayers are quick to react to any increase in rates as the Councillors responsible for such increases are available and vulnerable to criticism. Very few of the individual ratepayers react in the same manner to the ever-increasing burden of income tax, G.S.T. and other State taxes as those responsible are not easily accessed. There is no doubt in my mind that the majority of individuals receive much more value for the rates paid than they do for the huge amount of Federal and State taxes charged by a largely abstract State and Federal Government.

Since 1974, the Federal Government has recognised the need to provide financial assistance to local government in an endeavour to address the growing Vertical Fiscal Imbalance (V.F.I.). V.F.I. arises because the Commonwealth's revenue far exceeds its expenditure requirements. The Commonwealth receives about 83% of all government taxation in each year whilst the local government authorities receive about 3% through rating avenues.

The financial assistance grants to local government were introduced by the Whitlam Government and peaked at 2% of personal income tax during the Fraser term. Since that period, a succession of different governments has witnessed and authorised the erosion of these F.A.G.'s (now known as General Purpose Payments - G.P.P.'s) on a yearly basis until they now equate to 0.8% of personal income tax. The relativity of personal income tax as a measuring ratio has now been superseded by the term total Commonwealth Taxation Revenue. It is imperative that the future G.P.P.'s to local government are indexed as a proportion of total Commonwealth Taxation Revenue excluding G.S.T. as a means of minimising further growth in vertical fiscal imbalance. The Australian Local Government Association is seeking 0.6% as a satisfactory allocation for the general purpose component which represents about a 10% increase or \$200,000 for Orange this year. This indexation would guarantee a regular increase each year.

The Federal Government has made no commitment in this regard.

The Australian Local Government Association is also concentrating on obtaining a government commitment to hypothecate 20% of the excise on petroleum products towards the funding of roads with 25% of this figure funding identified local roads.

Current road allocation by the Commonwealth Government equates to 14% of the fuel excise collected. In dollar terms, the 20% requested would provide an additional \$771 million nationally for the current year - however, the important aspect is that the dollars would automatically be increased each year.

The Federal Government has made no commitment in this regard.

Highlights of expenditure trends and forecasts contained in the most recent Federal Budget are shown hereunder:-

	2001-02	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m	
Defence	12,232	13,144	14,011	14,417	14,970
Total Education	11,692	12,324	13,044	13,634	14,258
Higher Education	3,921	4,070	4,149	4,247	4,329
Vocational and other education	1,251	1,323	1,405	1,427	1,457
Non-government schools	3,710	4,021	4,420	4,740	5,091
Government schools	2,089	2,145	2,280	2,409	2,545
Total health	27,461	29,054	30,514	32,245	33,819
Hospital services & health care agreements	8,183	8,689	9,166	9,789	10,450
Pharmaceutical services and benefits	5,285	5,359	5,771	6,264	6,711
Housing	2,206	1,866	1,720	1,693	1,630
Natural Heritage Trust	275	250	250	310	310
Agriculture, forestry and fishing	1,797	1,792	1,761	1,735	1,614
Rural assistance	238	146	115	39	27
Transport and communication	2,872	2,263	2,096	2,204	1,731
Rail transport	206	24	14	1	6
Road transport	1,602	1,327	1,316	1,573	1,127
Road safety Black Spot Programme	49	45	45	45	45
National Highway and Roads of National Significance	1,093	981	929	1,245	1,050
Roads to Recovery	418	202	302	252	0

These forecasts are quite alarming from a roads perspective and should receive immediate attention from all local government authorities in Australia.

As stated earlier in this report, local government is accountable to the community. The two other tiers of government will exploit this situation to the maximum and continue to allocate resources to the more unified and vocal areas of need such as welfare instead of "local government responsibilities". The two other tiers of government believe that local government will survive and make do without financial assistance.

With the reform of the Australian Taxation system and the introduction of the G.S.T, there should be more opportunity for the State Governments to allocate untied funding to local government - particularly in an endeavour to finance some of the unfunded mandates handed to local Councils over the past few years. It is likely, however, there will be strong resistance from any State Government to include local government in a regular allocation of untied funding.

The State Governments adopt double standards in their dealings with local government, particularly in New South Wales where rate pegging has been a popular law for many years. Council is aware that rate increases have been restricted to 3.3% for 2002/03. Whilst rate pegging has applied to local government, there has been no limit on increases of State Government fees charged to local government. Some examples are:

- 1 New South Wales Fire Brigades have notified Councils to expect an increase in levies of about 13.3% in 2002/03.
- 2 Rural Fire Services have advised Councils to expect an increase of 7.5% for contributions for 2002/03.
- 3 The Dog Act of 1966 transferred the role of responsibility of registration and management of dogs from the Police to Councils. The responsibility and cost was further exacerbated in 1998 when the Companion Animals Act imposed more responsibility on Councils - without any financial compensation. The net cost to Orange City for management of the Companion Animals Act for 2002/03 is \$260,180.
- 4 G.S.T. accounting has landed Council with an additional \$7,500 cost per annum.
- 5 Law and Order issues expected to be handled by Council instead of the Police Force are expected to cost Council an additional \$25,000 in 2002/03.
- 6 Council pays full cost recovery for services by the State Valuation Office whilst their premises remain rate exempt.
- 7 State Rail, National Parks and Wildlife Service, Transgrid, Department of Agriculture and a myriad of other government services charge at least a proportion of cost recovery for services to Council; however, all premises remain rate exempt.

Other examples of unfair double standards exist with the costs incurred by Councils in being compelled to adopt strict guidelines for employment opportunities compared with the standards employed by the State Government in engaging a new Police Commissioner.

The New South Wales Government treats local government in a more unfair manner than even the other States and territories.

National Competition Payments of \$740 million were returned to the States by the Federal Government during the past year. All states, except New South Wales, returned local government its appropriate share of the total.

The library subsidy provided by New South Wales is pitifully inadequate compared to that provided by other States, eg:

New South Wales	\$2.79 per capita
Victoria	\$5.37 per capita
Queensland	\$6.06 per capita
South Australia	\$7.62 per capita

Councils are also prevented from charging for library services by State Government legislation.

SUMMARY

It is not a new revelation to anybody involved in local government to acknowledge that local government is treated unfairly in its relationship with State and Federal Government. It seems unlikely that any Constitutional recognition of local government and its rights will ever be achieved as all major political parties remain steadfastly opposed to the principle.

There is little doubt, however, that the infrastructure of local government, including roads, will require some major financial (indexed) commitment from Commonwealth taxation, fuel excise and G.S.T. to remain viable in the future.

Orange City Council is functioning in a reasonably satisfactory manner at present. This situation has been achieved due to a number of circumstances which do not exist for many other local government authorities. These circumstances will also change in the near future and there is no doubt Orange will need additional financial support from the State and Federal Governments to maintain its infrastructure and services in reasonable condition.

The prospect of any amalgamation with neighbouring rural Councils will definitely exacerbate this situation despite such action resulting in a huge reduction of non-productive administration and governance costs.

RECOMMENDATION

- 1 That the report be noted.
- 2 That Council provide total support to the Australian Local Government Association in its endeavours to secure a better financial deal for local government.
- 3 That representations be made to all appropriate State and Federal Members of Parliament to seek a better financial deal for local government, particularly by way of an indexed allocation of taxation revenue, fuel excise and G.S.T. funds.

Allen Dwyer
GENERAL MANAGER

Passing the buck 'costly'

By Nick Redmond

ORANGE City Council's implementation of State Government policies and a reduction in Federal grants is costing the city millions of dollars a year, according to general manager Allen Dwyer.

Mr Dwyer said the city was under increasing financial pressure due to unfunded State Government mandates and the slashing of the Federal Assistance Grants (FAGS) scheme in the last 25 years.

Mr Dwyer said programs, including the Companion Animals Act, which the State Government had foisted on local government, would cost

council hundreds of thousands of dollars in the next financial year.

Mr Dwyer also said that if FAGS returned to 1978 levels it would add more than \$3 million to council's budget.

"With the State Government there is the Companion Animals Act and things like the collection of the GST cost a lot of money and time. Valuation fees have gone up and our electricity charges will go up," he said.

"The big thing local government has to jump up and down about is the erosion of its FAGS money (to councils). It's down to about 0.6 of one per cent for all the income tax

paid across Australia. In 1978 it was 2 per cent. If we were to get that back it would virtually give us an additional \$3 million every year."

Mr Dwyer said the FAGS money was supposed to be indexed but it never happened allowing governments to pass on whatever they liked.

In the last nine years the State Government had permitted a total of 15 per cent in rate rises but the CPI had increased by 20 per cent over the same period, he said.

"Local government is not mentioned in the constitution so we don't have any power in this," he said.

At a meeting last week council resolved to investigate exactly how much unfunded mandates were costing the city.

When that report comes back to council Mr Dwyer said one recommendation would be to "hammer" the national Local Government Association and the higher tiers of government to secure a better deal for councils.

At last week's council meeting Mayor Dick Niven said it was time to stand up to governments to get a better deal.

When council debated the doubling of fire brigade staff

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Mandates

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at the Orange station Cr Niven said it should be the State that funds the additional \$80,000 the extra staff will cost council.

"My belief is that if the State Government want to do this then they should do it and pay for it. They continue to do this type of thing through the back door and make the local government people take the blame for the extra costs," he said.

"This is the way the government operates these days. Making sure we send out the bills for the policies they want to bring in."

C.W.D. Monday 6 May 20