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1 May 2024

Mr Luke Gosling OAM MP
Chair
House of Representatives Standing Committee on Regional Development,
Infrastructure and Transport
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Sir

Inquiry into Local Government Sustainability

Lockhart Shire Council welcomes the Inquiry and appreciates the opportunity to make a submission. Council wishes to submit the following comments with respect to the Inquiry's Terms of Reference.

a) The financial sustainability and funding of local government.

Financial Assistance Grants (FAGs) provided by the Commonwealth Government to Local Government have provided a base level of funding for councils for over 50 years.

As far back as 1971 the soon to be Prime Minister, Gough Whitlam, stated in a speech on Intergovernmental Relations that:

"The future of Australian federalism depends far more upon municipalities than upon the Commonwealth or the States. Federalism is threatened not by the drift of power from State capitals to Canberra but by the States imposing upon municipalities functions which are beyond their means."¹

It is understood that this is a Federal Inquiry and that the issue of cost shifting is very much one for the States. The reason for referencing Whitlam's statement from the early seventies is to emphasise that the point that was being made by Whitlam at that time is very much valid today i.e. that Local Government needs to be strengthened by financial assistance and that the success of Australia's federalism depends on it.

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¹ Address by Gough Whitlam delivered to a seminar on Intergovernmental Relations at the Australian National University, November 1971.

Local Government has evolved over a long period of time well beyond the early days where it was primarily concerned with providing property related services e.g. road access, drainage, waste collection etc, which justified a property-based tax as the main source of revenue.

Local Government's evolution into non-property-based services such as public libraries, parks and gardens, public swimming pools, sporting grounds and the like, means that people who do not own property and therefore do not pay rates, now benefit from a wide range of services provided by local councils.

The increasing range of services provided by Local Government, and in particular non-property-based services, justifies increased funding being provided to local councils by other levels of government in order to fund this expanding role.

Whilst FAGs have provided a base level of funding for councils for over 50 years, they have decreased from one percent of Commonwealth Taxation Revenue in 1996 to just over 0.5 percent today.

For the reasons outlined above Council supports the Australian Local Government Association's (ALGA) call for restoring FAGs to at least one percent of Commonwealth Taxation Revenue².

Council submits that the financial assistance provided to Local Government needs to keep pace with the expanding role performed by local councils and more particularly for rural councils for the following reasons:

- Rural councils do not have the same opportunity to generate own source revenue streams as do larger metropolitan and regional cities which collect income from sources not available to rural councils such as parking fees and fines.
- An allotment in a densely populated city may generate scores of rateable assessments through high rise development whereas a single allotment in a rural shire will generate just one.
- The provision of services is more cost effective in a densely populated area. For instance a few metres of road, footpath, kerb and gutter, stormwater drainage, water and sewerage main can service scores of rateable assessments (as per the above example) whereas in a rural shire that same infrastructure is likely to service just one rateable assessment.

Council respectfully submits that the last dot point above is the reason why council amalgamations have not resulted in lower rating levels but on the contrary, many merged councils in NSW are amongst those seeking special rate variations over and above the legislated rate pegging limit.

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² Media Release – ALGA Welcomes Inquiry into Local Government Sustainability – 21 March 2024

Economies of scale in terms of geographic size are often confused with economies of population concentration and it is the latter which leads to cost savings. This needs to be acknowledged and rural councils need to be financially supported accordingly.

b) The changing infrastructure and service delivery obligations of local government.

It is not proposed to go into detail on the issue of cost shifting in this submission beyond stating that, more than 50 years after Gough Whitlam's speech, it continues to be a major concern. Council believes that Local Government NSW more than adequately collates information on the degree of cost shifting on to NSW Local Government and is continually advocating on behalf of councils on this issue.

It is worth noting however that councils are often criticised for voluntarily becoming involved in services and activities that are not necessarily core local government functions. This criticism is considered unfair because, as the level of government that is closest to the people, it is the local council that the community turns to when a service, whether privately operated or provided by another level of government, closes down or leaves town.

The local council is often the "last person standing" and the local community is not concerned with constitutional arrangements and which level of government is responsible for which functions. They simply want their needs addressed.

Council is currently experiencing this very issue with the closure of a privately operated childcare centre in town leaving many parents without access to this critical service. In a small community like Lockhart this has significant flow on effects with some parents potentially having to reduce their working hours or, worse still, having to cease working all together at a time when local businesses are having difficulty attracting staff.

It is important to view Council's earlier comments regarding the expanding role of Local Government in this context, and in particular the need for financial assistance to Local Government to keep pace with this expanding role.

c) Any structural impediments to security for local government workers and infrastructure and service delivery.

Councils do not wish to see the loss of local government jobs, especially in rural areas. However, policy makers need to balance efforts to protect local government workers with policies imposed on councils that aim to make councils more efficient and service delivery more cost effective. Too often these efforts work against each other.

For instance, amendments introduced into the NSW Local Government Act 1993 prior to forced council amalgamations in 2004 imposed restrictions on the newly merged councils' ability to pursue economies of scale and more efficient ways of operating. The restrictions not only protected employees from forced redundancy for a period of three years but also precluded their relocation beyond the boundaries of the former council area. Core Council job numbers also had to be maintained in rural centres indefinitely.³

The Local Government (Council Amalgamations) Proclamation of 2016 provides that *"the initial organisation structure of a new council is, as far as practicable, to be a composite of the organisation structures of each of the former councils"*.⁴

Council respectfully submits that whilst trying to protect local government jobs is admirable, forcing newly merged councils to structure their operations as the former councils did would appear to defeat the purpose.

An even more recent example in NSW Local Government is the amendments to the Local Government (General) Regulation as it relates to tendering for waste management services.

At the heart of the problem is section 173 which requires that a tenderer for the provision of waste management services must include in their tender submission an undertaking that individual employees currently employed in the provision of the service by the current contractor, will be offered employment to continue to provide the service on at least the same terms and conditions.

As stated earlier, Council does not wish to see job losses in rural and regional areas and believes that preventing waste contractors from competing on labour costs alone has merit, however, Council is also concerned that these changes:

- Undermine councils' obligations under 8A(1)(b) of the Local Government Act 1993 to carry out their waste management functions *"in a way that provides the best possible value for residents and ratepayers"*
- Are contrary to the principles of sound financial management outlined in section 8B of the Act.
- Are anti-competitive and contrary to the procurement objectives of best value for money.

d) Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices.

The attraction and retention of skilled staff is a major issue for rural and regional councils. So much so that the Riverina Eastern Regional Organisation of Councils (REROC), of which Lockhart Shire Council is a member, has established a Workforce Development Group to specifically focus on this issue.

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³ Local Government Amendment (Council and Employee Security) Bill 2004

⁴ Clause 29 - Local Government (Council Amalgamations) Proclamation of 2016

However, the efforts of councils in their role as an employer are limited to “grow your own” initiatives and human resources policies centred on more flexible working conditions and other incentives.

However, the things that influence the decisions of skilled staff and professionals when considering relocating to an area go well beyond working conditions and include the availability and quality of particular services and facilities e.g. childcare, educational institutions and medical facilities. Therefore, ensuring rural and regional communities are adequately resourced and have appropriate services can have just as much an impact, if not more, on attracting skilled staff as any employment related incentives a council may be able to offer.

e) The role of the Australian Government in addressing issues raised in relation to the above.

It is clearly understood that Local Government is an arm of the State and exists by virtue of an Act of State Parliament.

Notwithstanding this, the Commonwealth has a critical role to play in ensuring the sustainability of Local Government, as foreshadowed by Gough Whitlam’s statement in 1971, which proved to be a forerunner to the introduction of Commonwealth revenue sharing grants to Local Government several years later.

Generally referred to as vertical fiscal imbalance, the Commonwealth has most of the tax raising powers whilst the States and Local Government have most of the expenditure functions and service obligations making financial assistance from the Commonwealth to the States and to Local Government essential for Australia’s federalism to work effectively.

The provision of financial assistance to Local Government also helps address horizontal fiscal imbalance which arises when different areas have cost disabilities in the provision of services due to their geographic and economic characteristics. Addressing these disabilities can also be a means of ensuring the availability of critical services which, as stated earlier, are not only important for existing residents but also assist in attracting skilled staff to an area.

It is worth noting that the provision of financial assistance to Local Government is also in the interests of fairness and equity. In a highly mobile society we do not necessarily live in (and pay rates to) the same local government area in which we work, or play our sport, or do our shopping or spend our vacations.

Intergovernmental financial arrangements and the provision of financial assistance to Local Government means that non-residents of an area can make a contribution towards the services they access in other local government areas through the payment of direct and indirect taxes. This arrangement acknowledges the citizen’s dual role as a ratepayer and a taxpayer.

f) Other relevant matters

It is a concern of Council that, in an effort to bring Local Government into line with financial reporting by other entities and the broader financial framework, the uniqueness of Local Government has been lost.

For instance, councils in NSW are required to prepare their financial statements in accordance with a Local Government Code of Accounting Practice and Financial Reporting released by the NSW Government. The Code, amongst other things, requires public assets like roads, bridges, footpaths, drains, as well as water and sewerage infrastructure to be valued for balance sheet purposes even though these assets cannot be liquidated or be otherwise disposed of regardless of a council's financial position. This does not assist a reader of the financial statements to gain a better understanding of the council's financial position.

Council maintains that understanding the condition of these public assets and the cost of maintaining them and/or bringing them up to an acceptable standard that meet community expectations is what is important. The benefit of focusing on the valuation of these assets and the associated cost resulting from this focus by auditors is questioned.

Whilst the Local Government Code of Accounting Practice and Financial Reporting is a State Government document, the matter is being raised in the context of this submission because Council believes these requirements are imposed so that the State Government requirements align with the Commonwealth Financial Framework which in turn aims to comply with international accounting standards.

Once again thank you for the opportunity to make a submission.

Yours sincerely



Cr Greg Verdon
Mayor |