



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON ECONOMICS, FINANCE AND  
PUBLIC ADMINISTRATION

**Reference: Local government and cost shifting**

MONDAY, 28 APRIL 2003

SYDNEY

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## HOUSE OF REPRESENTATIVES

### STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Monday, 28 April 2003

**Members:** Mr Hawker (*Chair*), Ms Burke (*Deputy Chair*), Mr Albanese, Mr Cox, Ms Gambaro, Mr Griffin, Mr Peter King, Mr Nairn, Mr Somlyay and Dr Southcott

**Members in attendance:** Ms Burke, Ms Gambaro, Mr Griffin and Mr Hawker

**Terms of reference for the inquiry:**

To inquire into and report on:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.
4. Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.
5. The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission <http://www.cgc.gov.au/Review> of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

**WITNESSES**

<b>ARMSTRONG, Mr Eric, Group Manager, Planning and Support Services, Lane Cove Council .....</b>	<b>701</b>
<b>FARISH, Associate Professor Stephen James (Private capacity) .....</b>	<b>751</b>
<b>GIBBS, Ms Melissa Irene, Executive Director, Southern Sydney Regional Organisation of Councils .....</b>	<b>701</b>
<b>GOODING, Mr Alex, Executive Director, Western Sydney Regional Organisation of Councils Ltd .....</b>	<b>701</b>
<b>GRIFFIN, Dr John, General Manager, Tweed Shire Council .....</b>	<b>701</b>
<b>HAYNES, Mr Cliff, President, Local Government Managers Australia, New South Wales Division.....</b>	<b>701</b>
<b>HOLLOWAY, Ms Penny, General Manager, North Sydney Council.....</b>	<b>701</b>
<b>JONES, Mr Ross, Executive Director, Northern Sydney Regional Organisation of Councils.....</b>	<b>701</b>
<b>MAY, Councillor John, Mayor, Lane Cove Council.....</b>	<b>701</b>
<b>McBRIDE, Mr Shaun Christopher, Senior Policy Officer, Finance and Economics, Local Government Association of New South Wales and Shires Association of New South Wales .....</b>	<b>701</b>
<b>McMAHON, Mr Michael Gerard, Chief Executive, City of Ryde .....</b>	<b>701</b>
<b>MONTAGUE, Mr James Cleland, General Manager, Canterbury City Council.....</b>	<b>701</b>
<b>SMITH, Mr Barry Ronald, General Manager, Hunters Hill Council.....</b>	<b>701</b>
<b>TRUMAN, Mr Gordon William, Executive Manager, Strategy, Hornsby Shire Council, North Sydney Regional Organisation of Councils .....</b>	<b>701</b>

**Committee met at 9.10 a.m.**

**ARMSTRONG, Mr Eric, Group Manager, Planning and Support Services, Lane Cove Council**

**GIBBS, Ms Melissa Irene, Executive Director, Southern Sydney Regional Organisation of Councils**

**GOODING, Mr Alex, Executive Director, Western Sydney Regional Organisation of Councils Ltd**

**GRIFFIN, Dr John, General Manager, Tweed Shire Council**

**HAYNES, Mr Cliff, President, Local Government Managers Australia, New South Wales Division**

**HOLLOWAY, Ms Penny, General Manager, North Sydney Council**

**JONES, Mr Ross, Executive Director, Northern Sydney Regional Organisation of Councils**

**MAY, Councillor John, Mayor, Lane Cove Council**

**McBRIDE, Mr Shaun Christopher, Senior Policy Officer, Finance and Economics, Local Government Association of New South Wales and Shires Association of New South Wales**

**McMAHON, Mr Michael Gerard, Chief Executive, City of Ryde**

**MONTAGUE, Mr James Cleland, General Manager, Canterbury City Council**

**SMITH, Mr Barry Ronald, General Manager, Hunters Hill Council**

**TRUMAN, Mr Gordon William, Executive Manager, Strategy, Hornsby Shire Council, North Sydney Regional Organisation of Councils**

**CHAIR**—I declare open today's hearing on local government and cost shifting and welcome everyone here today. Thank you for organising to come to Hunters Hill—and what a magnificent spot it is to have the hearing. This is the committee's first hearing on local government cost shifting in New South Wales. During the next two days we will be holding hearings in Barraba, Newcastle and Moruya. Today we will discuss the many issues and options in the discussion paper we released in February. The idea of the discussion paper was to stimulate debate and fresh thinking on effective solutions to cost shifting onto local government.

We would like the round table discussion to be free flowing; we want the discussion to involve the committee and all panel participants, and I certainly encourage you to be full and frank during our discussions. This afternoon we will hear from Associate Professor Stephen Farish from the University of Melbourne. Professor Farish will discuss the possibilities of using an SES—a socioeconomic status model—to allocate funding to local government.

I would like to advise all participants that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Would any of you care to elaborate on the capacity in which you are participating today?

**Mr Haynes**—I am also Group Manager, Corporate Services, Parramatta City Council.

**Dr Griffin**—I am also a divisional councillor of Local Government Managers Australia.

**CHAIR**—I would like a committee member to move that submissions numbered 353 to 374 be received as evidence to the committee's inquiry into local government and cost shifting and that they be authorised for publication.

**Ms GAMBARO**—I so move.

**Mr GRIFFIN**—I second the motion.

**CHAIR**—We have a very distinguished panel here, so hopefully we will get some very useful discussion going. Perhaps I will kick off on rationalising the roles and responsibilities of local government. What do you think are the rightful roles and responsibilities and what do you see as the optimum role?

**Dr Griffin**—I would be prepared to make a comment. I think it is a little bit presumptuous for us to suggest a role when the role is set by state legislation and we are creatures of the state government legislation. Great disappointment occurred in 1988, when a referendum to give recognition to local government in the Constitution was not successful. If that had been successful, it may not have necessitated an inquiry such as this, because the issues may have been cooperatively resolved amongst the three tiers of government. I believe that it is more appropriate that the three tiers of government work cooperatively to determine where each tier should respond to the needs of our community for the best effect. I am probably a little disappointed at the comments attributed to the former local government minister in New South Wales, who was not positive about the outcomes from this inquiry as it involves representatives such as ourselves from local government.

**CHAIR**—This is a Commonwealth parliamentary committee. The whole point of this inquiry is to give us the opportunity to raise these points. That is why I want to encourage some fresh views to come forward. I do not feel constrained and I hope you do not feel constrained.

**Dr Griffin**—I certainly will not feel constrained but it is a little bit disappointing that the other partner in the scheme of things is not actively participating as well.

**Mr Montague**—I agree partly with what you say. I think the act gives councils ample opportunity to involve themselves in things that one might have regarded some years ago as being non-core. My council has certainly done that. The difficulty we have had is that, with those responsibilities and the expectations of the community for council to take up those challenges—whether you like it or not, you are expected to—the funds do not come with it. I believe that this inquiry is about trying to find some sensible outcome on how we are going to

fund our services in the future and allow local government to go forward. My council struggles to do that now. We have taken on additional responsibilities because, as I said, the community expects us to. We are no longer rates, roads and rubbish; I am sure you will hear that many times before this inquiry is over. It is a question of defining what the community can reasonably expect and then working out how we are going to fund it. That is the issue.

**CHAIR**—A couple of the options in the options paper clearly try to address some of your issues. One of them was having local government in on the negotiations for the next Commonwealth-state financial agreement, which to me is much more constructive than looking to constitutional recognition to solve the problem. It might be a feel-good; but let us look at what we can do here. I think that is one thing we can do. Another is for the local government and planning ministers council to investigate all these aspects. We are looking fairly constructively at the points, so we can look forward with confidence to what the inquiry might achieve if there is support for it.

**Ms Holloway**—Talking about the role of local government—and I agree with what Jim said—there is certainly scope in the New South Wales legislation to enable local government to take on a whole range of responsibilities. In brief, the way I see the role of local government—putting aside the funding question—is to have responsibility for the built and natural environment and for the social environment of a council area. That is a fairly broad statement but, within that, there is a considerable range of roles: the natural environment taking care of both environmental management and environmental protection; built environment planning providing for the way residential and commercial development should occur and caring for the existing infrastructure; and the social environment providing community services that support the community.

**Ms Gibbs**—I would like to add one or two points to that. As earlier speakers have said, in New South Wales we have a councils charter which enshrines in legislation a set of principles that local government is to operate under. It is more than just service delivery. It obviously highlights the importance of service delivery but it also talks about things like community leadership, environmental management and, as Penny said, caring for the social environment as well.

However, it is important to note that, over the past 30 or 40 years, local government has changed its role dramatically in New South Wales and, I am sure, in other states as well. There probably is an opportunity now through this cost-shifting inquiry to perhaps finetune some of the divisions of responsibility and overlaps that we see. That is something very constructive that we could focus on and move forward on in areas such as public health, environmental management, community services, infrastructure replacement and even transport planning.

**CHAIR**—Do you want to expand on that more specifically?

**Ms Gibbs**—There is some scope to finetune and tighten up the boundaries of responsibility. In a lot of cases, it is not entirely clear who is a lead agency and who has primary responsibility for things that are not, as Jim said, normal core business. Quite often, a number of things fall through the gaps and local government is left to pick them up and move them forward. Some models that we could look at and that we have spoken about in our submission—the Tasmanian model and some of the south-east Queensland models—provide some good examples of

positive partnerships between local and state governments and the Commonwealth. Certainly in New South Wales there is some opportunity to learn from those examples, pick out the good bits and move forward.

**Mr Haynes**—Local Government Managers Australia has prepared a discussion paper on reform to local government in New South Wales. One of the issues that emerge from that is the opportunity through some sort of inquiry to rationalise and look at service delivery, from both state and local government levels, particularly what opportunities there might be to rationalise some of those services. This would be particularly in country or regional areas where there can be some changes, with some partnerships between local government and state government, and for there to be one service delivery for some of those functions. That is where I saw the possibility of some sort of model through this framework to recommend some of those changes. There are different structures and different models for local government in the different states, and it is possible that some of those models in the different states could be examined to look not at definitive models but at some opportunities where there can be some common approaches in areas which differ from state to state. So there are some opportunities through this approach.

Penny has covered well the description of the role for local government but, if local government is to be effective, it has to have influence for its community members, in whatever that might be. The charter in New South Wales talks about leadership and advocacy, probably in the sorts of areas that Penny has described, but there has to be the financial capacity to deliver them. There are certainly some opportunities which you have covered in your discussion paper, and if there can be some sound recommendations out of it there may be at least some acceptance or consideration by the states of the value of this inquiry.

**CHAIR**—Would you like to be a bit more specific? You talk about models of best practice and so on. Which ones in particular would you see as leading the way?

**Mr Haynes**—In the different states now, there is a variety of ways in which things are delivered. In the Victorian model, they have introduced best value approaches to service delivery. That is not necessarily something that has been taken up throughout the states, so that is perhaps one option. But we need to look at where there is some overlap and duplication—where some of the state functions could equally be performed by local government—to eliminate some of the administration costs. That is particularly the case in regional and country areas—there is duplication there. I think that, with some examination of those services, a consistent and acceptable approach could be found.

**CHAIR**—The Victorian and the South Australian examples are probably similar. They have gone down slightly different paths, but they have ended up with amalgamations. In South Australia's case, they are talking about a three to five per cent saving in some of their costs. Do you see scope for that across other parts of Australia?

**Mr Haynes**—Certainly New South Wales has not been through a structural reform process since the eighties—I think that was the last time. There has been a lot of talk about that in New South Wales for some time. The LGMA's position is that there needs to be some change, but change should be on the basis of an examination of which services can be performed in a more rational way. That should be the basis for any change or amalgamation and it should not be just a case of 'one size fits all'. Models such as regional service delivery could perhaps assist where

there is a concern about local community interests not being preserved. But I think there are certainly some models for change that ought to be considered in New South Wales.

**CHAIR**—Do you see the levels of savings that South Australia has achieved as being achievable here, for example?

**Mr Haynes**—It is difficult for me to say yes or no, but I am sure there are opportunities for savings. Rate pegging in New South Wales has been much maligned, but I think it has given councils an ability to review their operations and to be as efficient as they can be. There is always room for improvement, but we have not looked externally, beyond our own councils, to see what opportunities are there. That has probably been because of a lack of political will, perhaps. Equally, there are examples where some savings have been produced by bulk arrangements, but I do not think we have gone far enough with that.

**CHAIR**—Someone has put to us that maybe the achievement of those sorts of savings ought to be a condition of Commonwealth funding.

**Mr Haynes**—I would be concerned by that approach, because, currently, the financial assistance grants are a major revenue source for lots of councils. They rely on them for the delivery of their services. I think that, without a broader review of state services which involves the states, suggestions like that could lead some councils into more difficulty.

**CHAIR**—I can see that Ms Holloway has a view, having been through a 20 per cent rate cut.

**Ms Holloway**—Yes, and I think you will have seen in Victoria that rates have continued to rise ever since. They are probably now back at the position they were at prior to amalgamation.

**CHAIR**—They are probably worse than that, if we see the latest news!

**Ms Holloway**—Having been through the amalgamation process in Victoria, I could not say that I was opposed to it. Obviously there needed to be change and reform in Victoria. I was reacting to the comment about tying Commonwealth grants to efficiency gains. I think the problem there is that the Commonwealth grants do still form a minor part of the total funding of local government. Local government depends on funding from other sources—rate revenue, of course, is the most significant one. Tying Commonwealth government funding to a fairly blunt type of instrument like efficiency gains will only put councils in a difficult position without necessarily achieving the outcomes that are desired. I think that other ways need to be found to achieve those efficiencies rather than tying Commonwealth grants to them.

**CHAIR**—Please elaborate.

**Ms Holloway**—We are talking here about widespread structural reform. I do not think whole-scale amalgamations in New South Wales are the answer. Certainly, in some areas it needs to happen because, in country areas in particular, there are some councils that are very small and where the doughnut council situation exists. But I think there needs to be a mixture of changes, one of them being amalgamations—but that is not the only answer. Financial reform is probably as important. I know that removal of rate pegging is an easy answer, but it is something that

needs to happen because currently the rates do not match the requirements for service delivery in council areas. We need reform on a whole lot of different levels, not just one single approach.

**CHAIR**—Are there any other comments?

**Councillor May**—Can I just pick up on that. You mentioned that this is about the role of councils. You have heard all this before, no doubt, but the role of councils is expanding at quite an aggressive rate. For instance, at Lane Cove we are at present doing a cultural plan and a social plan and we have a number of environmental management tasks in front of us—all those things. We can do these plans but we cannot fund them. We cannot fund them properly because there is not sufficient money, which goes back to the rate pegging issue. The community expects us to provide these things—and Lane Cove is in a position to afford them—yet rate pegging is making that impossible for us to achieve. It is a great problem for us.

**Mr Montague**—I agree with that. I think it is a very simple proposition. Maybe I am oversimplifying it, but I think it is really a question of looking at the way councils perform financially. There is no question that some structural reform—that is code for amalgamation or boundary change, call it what you like—is necessary. I think that is clear. However, it is not the only answer. If that structural reform is not accompanied by real financial change then local government is going nowhere. I know in our own case, at Canterbury, we have a huge infrastructure renewal and replacement debt that we simply cannot afford. There is no way known that Canterbury City Council can replace that infrastructure over the next 10, 15 or 20 years, given our current revenue streams.

The people, however, expect the council to make these provisions and to provide these services and facilities. We cannot do it, and there are a lot of other councils in New South Wales—in Sydney in particular—that I am aware of that cannot do it either. As far as I am concerned, look at structural reform by all means but then look at how councils can be financed in such a way that they can hold their heads up, provide services to their own communities, as the people expect, and be financially self-reliant and efficient. In my opinion that is what it is all about. It does not really matter how you do it; it is a question of accepting that there is a need for both structural and financial reform and that they have to go hand-in-hand.

**Ms Gibbs**—I think there are some very simple things that could kick the process off. Yes, certainly, we do need to look at FAGs, but there are some very simple things that could be done in New South Wales that would really go a long way towards getting us started. They include things like allowing councils to recover the true costs of development assessment—just one very simple example—and the removal of state levies on councils, such as the waste levy, the fire services levy and some of the levies that councils are going to have to collect to administer a thing called Plan First. We also need to stop the rhetoric that ‘borrowing is bad, debt free is good’, because that ignores some of the intergenerational equity principles. There are some very simple things that I think we could start straight away, while at the same time reviewing the long-term future of FAGs and the broader funding arrangements for local government.

**CHAIR**—That raises a whole raft of questions. Going back to Mr Montague’s point about infrastructure, what level of assistance do you get from the state government for things like roads now? For example, in South Australia I believe that local government gets about \$1

million across the whole state, whereas in Western Australia the figure is about \$90 million. What is the story in New South Wales?

**Mr Montague**—I do not have the figures in front of me but I believe—I could stand corrected here—that the level of state support for road maintenance is quite small. There are Commonwealth programs such as the black spot program—

**CHAIR**—Roads to Recovery.

**Mr Montague**—which are very helpful indeed, and we have taken great advantage of them. But overall, I think the level of support from the state government is quite small. That is all I can say on that point.

**CHAIR**—Is New South Wales particularly hard done by the state government? You have talked about rate pegging and the state levies—not being able to recover the true costs of development. Is there something here that is a bit different to other states?

**Mr McMahon**—Obviously that is a matter of opinion. If you look at the history, we have had over 30 years of rate pegging in New South Wales. During that time financial assistance grants were introduced, which was additional revenue. This was in the late eighties and that has been changed. It came in as a percentage of personal income tax and that was rationalised. In some ways it was a form of growth for us with income tax, but that was changed with the Self inquiry. So we have lost that form of growth. We have had no other growth tax, if you like. You have a financial structure that is, as I say, over 30 years old and the role of local government has changed in that time in terms of the services it has provided. However you want to look at this, it comes back to the point that there needs to be some review. This is one review and it needs to be broader than that for New South Wales.

To answer your specific question, for example, we provide assistance to pensioners for rates. That subsidy from the state government was halved back in the late eighties and early nineties so that immediately was an impost to us that we had to fill. In many cases some councils also provided optional assistance to pensioners as well, which a lot have maintained. So we lost hundreds of thousands of dollars in one go and that has become larger as more pensioners have come on line for us. So to some degree, without understanding the relationships that exist in other states, I think New South Wales has experienced financial difficulties over time.

**Ms Holloway**—Having worked in two states, I can make a comparison. It is true that Victoria went through what could only be called a transformational change process in the mid-nineties that was brought upon it by the state government, which totally changed local government in all its aspects. That has not happened in New South Wales. But comparing the situations, as we speak now, local government in New South Wales is in a worse position vis-a-vis the state government than, say, the situation in Victoria. There is less capacity to raise local funds. The expectations from the community are still there but the ability to provide for or meet those expectations with the revenue that local government can raise within the constraints imposed by the state government is quite low. That is not the case in Victoria where the state government has listened to local government's needs and rates have increased. In addition to that there are, in my view, a considerably greater range of state grants to local government in Victoria than

there are in New South Wales. I think local government does fare worse in New South Wales than in Victoria.

**CHAIR**—That is very helpful.

**Councillor May**—I cannot do any comparison, but certainly the rating cap is generally below the CPI value and it has been so for many years. During that period of time councils have had much more responsibility thrust upon them by state governments. We have been asked to do things without being given any additional funding to do them. As I mentioned earlier, the expectations of the community about what councils should be doing in many areas are rising. We do not gain the benefit of any growth tax, which was mentioned earlier. State government revenue has increased quite substantially as a result of the tremendous increase in property values. Councils do not gain any benefit from that, yet we are involved in more and more difficult assessments of development applications because of rules laid down upon us by the state government.

**CHAIR**—Councillor May, can you give us a better feel for that last point. It strikes me as slightly odd that you have seen this tremendous growth in property values yet there is this rate pegging. What is the real effect of that? Maybe we ought to have a discussion for a few moments for the committee's benefit just on rate pegging and the effects and distortions it has had.

**Councillor May**—The small increase in rate pegging along with the CPI—and it is generally less than the CPI—gives us insufficient funds to meet our responsibilities, as I mentioned earlier. One of the examples I gave you was the requirement for councils to go through a substantial increase in work involved in the processing of development applications. I remember eight years ago when I got into council and we were looking through various council officers' reports, they were possibly half the size they are today because of various other elements which now have to be considered. This work has all been thrust upon us by state laws, but we have not been given any money for the additional work. We have to employ people of a higher calibre to be able to do these sorts of things et cetera. That is just one example.

**CHAIR**—What can you do with your rates when a revaluation occurs? What happens there?

**Mr Haynes**—I might call on Shaun's help; he has been involved in a research paper and an inquiry which the Shires Association have done on rate pegging. I think we need to understand that rate revenue is actually capped and that it does not have anything to do with individual property values that may increase—that is part of the whole idea of rate capping. While there has been a property boom, there has been no benefit to local government from that property boom. You get increases in growth in revenue very commonly on greenfield sites, particularly those councils that are involved in the urban development program out in the fringe urban areas. They have had an increase in revenue over time because their assessments have grown. Where there is growth in assessments, you do get growth in revenue.

If you come back to, say, most of the areas where most of us in the fully developed councils are from—particularly in my case in Parramatta where we have had redevelopment of the city centre with more residential development—you do not get the benefit from the redevelopment that has taken place. It is perhaps an anomaly in the legislation that does need to be improved. If

you have one site that currently has a small two-storey office building on it and on the same site that is replaced by a 20-storey office building, you get no extra revenue as a result of that because it is based on land value and the land value is still the same. That is the sort of anomaly that is in the rate capping legislation. Although the value is the same, the yield on that may be 10 or 20 times greater. There may be lots more employees working in that building during the day and your service delivery has to increase, but we get no benefit from that. I think that is part of the anomaly that exists within the rate pegging legislation and why we have not obtained growth and why we have not really benefited from the property boom over the last 10 years.

**CHAIR**—Does anyone else wish to make any comments?

**Dr Griffin**—I will take that point a little bit further. A developing council can increase its revenue only if the rate base was appropriate at the time. A number of councils were caught with a very low rate base at the time of the introduction of rate capping and have never got out of that difficult situation. So only a growth council that has a good rate base can move forward to increase its rate revenue in a growth situation. A growth situation can hamper a council that has very low rates.

**Ms GAMBARO**—Can I just ask questions on this rate pegging? I think you were talking about a multilevel building. Just so that I can understand this: if there is a high degree of environmental work or preparation work, are there any other avenues where you as councils can put that charge onto the developer or consumer?

**Dr Griffin**—Yes.

**Ms GAMBARO**—You were talking about yield. Couldn't you look at some of those other areas, for example?

**Dr Griffin**—Through the mechanisms under the Local Government Act and the Environmental Planning and Assessment Act you can recoup costs from developers for some development areas, provided you have section 94 plans—that is what they are commonly known as—in place to recoup those funds. But that does not necessarily recoup all the funds, and it does not assist in the ongoing operations. It is only a one-off charge that you can get for capital works up front, and you then have operational costs on top of that which must come out of your rate base. The point I made before is that if the rate base is not substantial you just cannot do it.

**Ms GAMBARO**—Thank you for explaining that. I can see where you are coming from there.

**CHAIR**—Can I just get a ballpark figure? You have had this rate capping for 20 years?

**Mr Montague**—27 years.

**CHAIR**—How big a distortion has it created for the North Shore area, for example?

**Mr Smith**—If you have a look at the comparative analysis which was prepared for all councils across Australia, but particularly those in New South Wales, you will find that the rates

as a proportion of overall revenue of councils have decreased over that 30-year period. You might expect, because we are growing in terms of property values, that councils might have more rate revenue. In fact, you will find the rate revenue as a proportion of overall revenue has decreased. That is not necessarily the same for the Western Sydney councils. You will find that has probably increased. Similarly, you will also find that section 94 contributions in growth councils are quite a substantial component of overall revenue, and you will find in the developed councils that they are less of a component. As councils move from being growth councils to being more developed councils those section 94 contributions shrink. On an overall basis, rates as a proportion of revenue have continually decreased.

**CHAIR**—Proportionally, expenses are rising.

**Mr Smith**—Expenses are going up, yes.

**CHAIR**—How big a distortion has this created over those years? Can you compare Sydney and Brisbane, for example, or Sydney and Melbourne?

**Mr Smith**—I cannot, but it should be able to be done. The comparative analysis is a set of national indicators, so it should not be that hard to do. I have never looked nationally; I have only looked at the indicators in New South Wales. I have not looked at the indicators for the other states, but I do not think it would be that hard to do. I would be surprised if there is not a startling difference, simply because we are the only state that has rate pegging, which, in any pure economist's terms, is a regressive tax system.

**Mr McBride**—We have probably lagged one or two per cent per annum on a cumulative basis. Over 20-odd years, that is quite significant compared to, for example, Queensland. In terms of all other states, we have probably ranked around the middle in increases in rate income, but we have certainly lagged behind the other growth states by one or two per cent.

**Mr Montague**—The rate pegging regime for the last 27 or 28 years has forced councils to do one of two things, essentially. One is to borrow, and the other—and I think this is more serious—is to defer works. That is what I meant about the growth in the infrastructure debt. I am sure most councils have put off works because they cannot afford them. Now the time of reckoning is coming. There is a huge amount of work that needs to be done and, whether you have amalgamations or not, that work still has to be done. That is the essential point here.

Councils have quite intentionally masked the effects of rate pegging either by borrowing, as I said, or putting off essential works. In Canterbury's case, our works program could be much higher if we had the funding to do it. Certainly, the work is there to be done so it is a question of delaying that work until the funds become available.

**Councillor May**—I would like to add one other source of revenue: the selling off of assets. Lane Cove Council have been virtually forced into the hands of developers to undertake joint ventures selling off a land asset to raise revenue to provide facilities that our residents want. The trouble is that our residents quite often do not want that asset to be sold off. They come to council in hordes and say, 'You cannot do this.' So we go around in ever decreasing circles; they want this, but we do not have the money. If we sell assets in company with a developer, they do not want that either. It is very frustrating.

**Ms Holloway**—Mr Chair, you were talking before about distortions. There are distortions between states, but there are also distortions between councils because, when rate pegging was introduced, rates were pegged as they were at the time. If a particular council happened to have relatively high rates, that was the base that they have increased from. If they happened to have relatively low rates, that was the base they have increased from. Those distortions between councils have been exacerbated over the 27 years, so you see quite marked differences between councils. There is no objective justification for the differences in rates between councils, it is just due to where they happened to start from when rate pegging was introduced. So you get real anomalies and, I believe, inequities between ratepayers, just by historical quirk: where rates were at the time when rate pegging was introduced. North Sydney Council is not in a particularly bad financial position. However, when I compare what we are able to put into our capital works budget with the budget of the council I came from in Victoria it is about half.

**CHAIR**—Half being half per what?

**Ms Holloway**—I am just talking about the total budget. In comparative budgets, the amount of money that I am able to put into the capital works budget here in North Sydney is half what I was able to put into the capital works budget in Latrobe City Council, where I was in Victoria. You can see the effects of that on infrastructure. One example that all foreshore councils complain about is that our seawalls are literally falling into the harbour and we just do not have the money to put into that. We need to spend a million dollars immediately just to fix up the walls that have fallen over but we are only able to dig up half of that. On that score, we have had no money recently from the state government to assist, even though these are shared resources. It is a hidden problem, but it is not so hidden when you see the infrastructure actually crumbling before your eyes.

**CHAIR**—As someone who lives in another state, I would like to ask a question out of left field. How much has all this contributed to inflating house prices in Sydney?

**Councillor May**—None, because it is not as though there is an extra cost being charged to the householder in some way.

**CHAIR**—I am not saying that, but what if your rates were a lot lower?

**Councillor May**—Do you think that because of that people are paying more for their property?

**CHAIR**—It would be one less cost against the house.

**Councillor May**—I am not sure necessarily that when people purchase property—particularly with the size of the properties and the prices that they are paying—rates are a major consideration. Rates are a fairly small component of their annual cost. People spend more on Foxtel per month than they would on rates in Sydney.

**Ms Gibbs**—Maybe it does not factor into their thinking—

**Councillor May**—It does not.

**Ms Gibbs**—because they are not so high.

**Mr GRIFFIN**—Perhaps the fact that their rates are so low is a good selling point.

**Dr Griffin**—If I could add another point to the comments regarding the inequities that can develop from the different bases of rate levels when rate capping comes in, we have just run out some figures between Tweed, where I come from, and Lismore City Council, the next largest adjoining council. If we rated our properties on the same basis as Lismore we would have an extra \$12 million income on a base of \$22 million income that we have from that rating. Tweed was one of the councils that were caught with a very low rate base 30-odd years ago. We have made up some ground but that is the differential between adjoining councils.

**Mr Smith**—That is not uncommon in Sydney. For instance, I did a comparison of the rates between Hunters Hill and Lane Cove, Ryde and Canada Bay, which are our three adjoining councils. If our ratepayers paid the same rates, their rates would more than double, yet on average our property values would be significantly higher than in those adjoining councils.

**Mr McMahan**—Bringing in the fact that we are talking about property tax, and that is currently being impeded by state government legislation, is it possible to move onto some other forms of taxation?

**CHAIR**—Yes.

**Mr McMahan**—From our point of view, over the last 100 years local government has not dramatically changed in its structure. It may have adapted to modern environments but, generally, it still provides the same types of amenities. In the early days of its development a local authority may have gone into land development to ensure that its infrastructure, land and economy were flourishing, but in general most of the councils represented here presumably are in built-up areas that basically just face maintenance costs as an ongoing charge against its local authority. Some years ago at Ryde, looking back to the 1930s, councils were entitled to charge some form of transportation tax. Vehicles moving along our roads had imposed on them a particular levy. In fact, councils were also responsible for building bridges in those days, back in the twenties and thirties. In fact, Concord Bridge, or Ryde Bridge, was built by the City of Ryde, and there was a bridge with a bridge toll being collected by the council to pay for that infrastructure improvement.

One of the things that surprise me is our capacity to raise these regressive or, in fact, innovative forms of taxation upon the residents of our cities. Presumably we are locked into property taxes. That seems to be the basis on which local government has been operating for the last 100 years, but I am wondering whether there is capacity for us to look at other forms of taxation in order to revenue raise to meet the expectations and demands of our community. One could be some form of infrastructure tax which we could load onto people who are living in or moving through our area—for example, through tourism.

We could also look at other forms of taxation that might come from the GST, which is collected by the federal government. Presently, New South Wales is very limited in its capacity to receive any amount of money from the GST that is recovered from our constituents, yet, at the same time, it is a fairly large taxable base. I remember that some years ago, before the fringe

benefits tax was introduced, that was another cost burden that local government was burdened to pay. I suppose to some degree the GST, in a form, is another of those cost burdens, even though we get the capacity to transfer that money back in. Our constituents are paying for the GST, which is another form of taxation, but unfortunately we do not receive any benefit from GST receipts. At the moment, it seems to be given directly to our state government. I am wondering if one of the things that should be looked at by the committee is the capacity to have a direct transfer of GST back to local government.

**CHAIR**—Thank you for that. We do actually raise that somewhere in the options paper. You raise a whole host of points there. I do not want to stop the discussion—I would like to encourage it further on the points you are raising—but in some states I think user charges probably amount to about 12 per cent of local government revenue. I presume it is similar here.

**Mr McMahon**—It depends on the council, but some user charges are as much as 22 per cent.

**CHAIR**—Yes, the GST is a tax on individuals and businesses, but it is not a tax on local government unless you are competing in an area where there is a choice of provider.

**Mr McMahon**—I suppose it is the capacity of the individual ratepayer or constituent to continue to pay all the increased taxes. At some stage the burden of tax is transferred—hopefully, evenly—across our constituent base, but, if you currently have people paying taxation in respect of their salaries and wages and on top of that you have a GST that is applicable, then you have less capacity to raise that tax on those constituents who are currently being burdened by those particular taxes. From our point of view as a local authority, the councillors that make those determinations would have to be cognisant of the fact that, if their constituents are being overburdened at present, then a capacity to burden them more with another form of tax may be politically unacceptable.

**Mr Jones**—With regard to rates and rate pegging, there is another issue that has not been covered this morning—I do not have all the details; I have collected some of them from across our region. It is the question of non-rateable land and how much of that there is. I do not want to get into a debate about charging charities and all those sorts of things—I have not looked at any of that—but state owned and Commonwealth owned land forms large proportions of northern Sydney. In North Sydney—without a break-up of which bits are which—there are 75 blocks of state owned land, with a total rateable value in excess of \$65 million that cannot be got. Across that, the federal government has 17 properties, worth in excess of \$58 million. If you start to go through some of the others—I do not have the full figures—we end up with enormous areas of land which are not in any way rateable.

**CHAIR**—Are they serviced?

**Mr Jones**—Yes, very much so. Some of this I have the details for and a lot of it I do not; I just have gross numbers. But in an area such as Willoughby there are 58 state owned blocks of land, worth just on \$125 million. If you go to the state trading land, there are 80 of those, worth over \$23 million. Commonwealth owned land has a value of only eight and a bit million dollars, and Commonwealth owned trading has a value of about \$28 million. You can mirror this and I am sure our colleagues all around the room here would be able to do similar sorts of figures. There are enormous areas that are not subject to rates.

**CHAIR**—We have had submissions from the country areas which talk about the increase in state parks and so on.

**Mr Jones**—I heard that when I was in Canberra and I came back and tried to get some of the figures so that we could perhaps do some sort of comparison.

**Ms Gibbs**—I could give you another example. Sydney airport does not pay rates to the local councils surrounding that area, and the operations of the airport have a huge impact on the communities surrounding the airport. We know for a fact that the airport was sold recently for around \$6 billion, so I doubt that there is an inability to pay.

**Ms BURKE**—But, now that it is a privately owned enterprise and no longer state government controlled—

**Ms Gibbs**—I believe that its protection went with it.

**Ms BURKE**—It would be interesting to see.

**Mr Smith**—Part of a lot of these problems is legislation. Michael talked earlier about some additional taxing but every time you try to create some sort of innovative form of, say, an infrastructure levy, the government then says, ‘Oh, no, you have to construe that within the rating legislation’ and therefore it is caught by rate pegging. If you want to have an increase in overall revenue by more than the capped percentage then you need to make an application and in general terms the applications are refused because there are no objective criteria for determining what those sorts of things are.

I have been to public meetings here in Hunters Hill and it is unusual to get 60 or 70 people to turn up to any rating meeting but we did. And they vote something like 67 to three to have an environmental levy. You put your application in and it is refused. If the community is prepared to accept those types of specific purpose taxes—and that is what it is, a specific purpose tax—then what is the difficulty with that? It is just the mentality and approach of some people. That issue is peculiar to New South Wales; I understand that. You have to look at the whole box of tricks that relates to rating and revenue raising in New South Wales. It is different from what you will encounter in other places.

**Ms BURKE**—One of the things that stunned me in some of the submissions—I think one may have been from the association—was that some councils are not even raising rates to the pegged level, or have not even gone there. We have come across this more off the record than on; that is, some councils’ lack of desire to go to their own rating capacity. Someone was honest enough to admit in their submission—which surprised me—that some councils are not even going to the pegged rate. I would be interested if anyone has a comment on that.

**Mr McBride**—In our experience with the Local Government Association and Shires Association, the majority of councils now take their full limit. Many of the councils that have locked themselves into a lower base tend to have done so some time in the past—often 10 years ago—and often for political expediency or because there may have been a drought and community capacity to pay was low. There could have been any number of reasons why they

did not take it. I think you would find that the vast majority take it automatically now, and up to 40 each year will also seek to have a variation on top of that for specific needs and purposes.

**Ms BURKE**—Are most of those variations agreed to?

**Mr McBride**—That is another issue. It is an ad hoc process and we are raising this as part of our rate pegging task force. It is not a terribly transparent process. We all have examples of councils with very similar needs and similar financial positions going forward with equally strong submissions and sometimes getting approval and sometimes not. It can depend on the attitude of the minister from one year to the next. It is a very arbitrary process. That is where we are pushing for a more transparent and more systematic process with defined principles, guidelines and so on. We are currently working on developing a proposal on that basis.

**Mr Gooding**—I would like to raise an issue. One of the side effects of this is that councils have not had to argue the case for rate increases to their community because they have just been putting them up by the rate pegging limit, and there has not, in a sense, been a debate about that. I come back to Barry's point: one of the other issues is that if we are going to continue to have rate pegging then at the very least we need to look at the range of charges that are caught under the rate pegging cap and those which could justifiably be seen to be outside of that cap and not subject to it.

**Mr Smith**—I think last year—Shaun, correct me if I am wrong—had the highest number of applications for special increases over the pegging that have been approved in recent times.

**Mr McBride**—I do not know if it was the highest on record but I think it was around 45.

**Mr Smith**—It would be pretty close. That is quite interesting. I am aware of a council that in about 1987 decided not to take its pegging limit. It was an election promise. That council subsequently found itself in extremely dire financial circumstances and in fact then had to go to the state government and ask for not only the pegging increase but also what it did not take up previously. The impact on its rate base in future years was going to be so significant that it had to try to claw that back. That was quite an interesting scenario. The other thing that Michael touched on earlier is that there is this issue of the federal government funding local government directly. We are the only state that does not receive a proportion of GST or national competition policy payment revenue, as I understand it.

**CHAIR**—They are two separate payments.

**Ms BURKE**—No state gives GST direct to local government.

**Mr Smith**—I realise that but there is an understanding within the other states that the state governments do pass some of those funds back to local government. In New South Wales they do not.

**Mr Gooding**—That is the national competition policy.

**Ms BURKE**—That is national competition policy and it varies state by state.

**Mr Smith**—New South Wales is one of the ones where they do not.

**Ms BURKE**—Take GST out of your argument and you will be on safer ground. Most of the states have not even got their full GST payment from the federal government yet. If you are talking competition policy, that is a different ball game. But for GST at local government level it is different.

**Mr Smith**—My understanding is that some states are passing something back when they receive their payments. Is that not right?

**Mr McBride**—That is the competition policy.

**CHAIR**—The Queensland government has handed the most over from competition policy but Queensland would see itself as the most decentralised state. Local government not only plays a bigger role but also takes greater responsibilities in Queensland than it does in some states.

**Mr McMahan**—I have a question in relation to the reasons why local government does not receive any direct GST funding. Is that a legislative machine that has been set up? Back in the 1970s the Whitlam government introduced the two per cent of taxable receipts from taxation, which has dramatically changed over that time. That was a federal government initiative to directly fund local government through that means. Why can GST not be funded directly to local government?

**CHAIR**—That was the original agreement that was drawn up by COAG on how the funds from the GST would be applied. As far as local government is concerned, the sources may have changed but the actual Commonwealth contributions through FAGs have been increasing at CPI for quite a few years now. You ask why not the GST. The Commonwealth is providing an increasing amount plus, as we mentioned earlier, the Roads to Recovery is an additional direct payment that has come in on the infrastructure issue. We would like to discuss whether you see this as the most effective way of doing it. There is a way that the Commonwealth is providing money, anyway.

**Ms BURKE**—The original GST package had direct funding to local government as part of the deal. That was changed in the Senate, predominantly because of pressure from local governments. They were not enthused with it. I voted against the GST in its entirety, so I come from a different perspective, obviously. If you go back to it, a change by the Democrats in the Senate did it. We can debate the history but that has gone now. It is a matter of looking at other ways of ensuring that local government can do its job more effectively. At the end of the day that is what we hope to get out of this inquiry.

**Mr McBride**—Just to clarify that, local governments' objection that you are referring to was not so much to a share of GST but to the control going to the state government. I think we have already touched on the relationship between local government and state government in New South Wales.

**CHAIR**—It seems to be rather unique.

**Ms Gibbs**—What you are suggesting in the discussion paper may well overcome that and it may well have overcome the issue with the national competition policy payments as well. I understand that it was always envisaged in the NCP reforms that some of the money would flow to local government. If we had had a seat at the table perhaps it would have flowed automatically rather than the states and local government having to have that wrangle back home.

**Mr Smith**—That is a relevant point—the number of times we do not get a seat at the table.

**CHAIR**—You certainly get a seat at COAG.

**Mr Smith**—Yes. There are times when different perspectives can come from different places. You cannot include everybody.

**CHAIR**—Are you telling me that you are supporting those options we put forward for the next Commonwealth-state financial agreement, that local government be included in the negotiations? Is there any dissent on that?

**Ms Holloway**—That seems reasonable and sensible.

**Ms Gibbs**—The issue of representation—

**Ms BURKE**—There are over 700 councils and there are at least six more peak bodies of those councils. We have been a little frustrated in this process by the inability of the peak bodies to speak on behalf of all the councils—and we are politicians, we understand politics. So if you say you are going to be there, who is going to be there? You are at COAG but as a nominal voice, in some respects, I would argue. I think it is laudable, but you have to think through who speaks on behalf of 700 very diverse bodies.

**Ms Gibbs**—I have been giving that a bit of thought because I know it is something you have been wrestling with. I know that the Australian Local Government Association has some difficulty because they do not represent the 700 councils; they represent the state associations. You have six premiers at COAG, so why not have six representatives from each of the states to represent local government?

**CHAIR**—With six votes?

**Councillor May**—Well, that has been decided then!

**CHAIR**—I think that is an ambit claim, isn't it?

**Mr Haynes**—Even for that to occur, New South Wales does not have only one lead agency that represents local government. It has two associations, so we have not been able to get that right in New South Wales either.

**Ms Gibbs**—I think that if we are really serious about this, that is the issue that local government itself has to deal with. We keep arguing that we are grown-ups and we want to be

treated like grown-ups. We need to get our house in order and show that we can get our act together and that we are deserving of the seat at the table.

**Mr Jones**—Maybe that is part of structural reform. Can we come up with that?

**CHAIR**—That is why there are four of us—to get people to have input.

**Mr Montague**—All I can do is repeat what I said earlier: structural reform is fine but without financial reform as well, we are going nowhere. Nothing will change, we will just have bigger councils that are still going broke; that is what will happen. And the work will be delayed—the work will be deferred as it is now. If you push three councils into one, there may be some ephemeral savings—staff cuts and that sort of thing, particularly at the top end; I understand that. But the real savings will not be there and the work will have to be done. So those three smaller councils, as they may be, can form one larger organisation but the same amount of work has to be done for the communities in that larger organisation. Where is the money coming from to do that? That is the issue here.

Whether it is rate reform, taxation reform, a bigger share of the cake at a federal level coming directly to local government or whether it is a more benevolent attitude by the state government towards local government, those are the issues that we need to come to terms with. Rate pegging has effectively straitjacketed local government for the last 27 years. That is what it has done. In our case, what we did in response to that was to borrow, particularly in the eighties. We are debt free now, I am pleased to say, although that in itself is another issue. But we have put off work. There is no question that the infrastructure renewal programs at Canterbury have suffered because we simply do not have the money to do them. It is as simple as that. It has got to come from somewhere. Either people pay to have their roads resheeted or reconstructed or they have a goat track. In the end, somebody pays; that is how the system works. I think local government has to be a bit more mature about that as well.

**Ms BURKE**—I find the issue of borrowing a bit fascinating. Everybody runs on debt. I always find it a hysterical argument that Treasurers run that we have to run surpluses, we are not allowed to have debt and we are not allowed to borrow money. If it is serviceable or manageable debt, isn't that something that is intelligent financial planning by councils, especially if you have got infrastructure that is going to fall apart on you and cause you massive amounts of legal and insurance claims and payouts? I am finding this notion of 'we're fantastic' fascinating. I know you qualified the statement; I suppose that is why I am going back to it. Quite a few of the submissions go into that argument. Are there some restrictions on borrowings for local government in New South Wales?

**Mr Montague**—Canterbury racked up about 12 per cent debt cost, which was still manageable, there is no question about that. We embarked on a debt reduction program back in the nineties and, as I said, we were debt free. But there were years when we were borrowing to pay the wages; we were not borrowing for infrastructure renewal, which is a no-no. I do not think that it is necessarily a bad thing, as long it is manageable. There are restrictions, however. There is a global loan policy in place in New South Wales and certainly there is a limit on how much local government, in total, can borrow in a given year. That can be reflected in individual councils finding that their request for loan borrowings is either reduced or eliminated altogether, depending on their circumstances.

I am trying to say that generally the contemporary view is that debt is desirable, providing you are borrowing for work that has a long life span. That is just sensible accounting. Canterbury embarked on their debt retirement program for a particular reason at the time—to get our house in order. We have managed to do that and we are now starting to ramp up our debt by small amounts each year. I think our debt cost currently is about one per cent, which is very low. But the point I am trying to make is that the government needs to accept that if councils have to borrow to do that work they have to support that sort of loan program and do it sincerely or they have to give local government access to other secure funding. The source is irrelevant; the money has to be there, otherwise the work will not get done.

**Mr Smith**—It is also relevant that most councils started a debt reduction program when rate pegging was introduced.

**Mr Montague**—Yes, that is true.

**Mr McMahon**—A lot of councils were stung—some in the eighties—in relation to large debt and uncontrolled interest rates. As a result of that, when 17 per cent or 18 per cent was actually applying to that debt servicing, those councils actually found themselves in a difficult situation in being able to finance their normal services, let alone servicing the debt. That is the reason why they took the decision to actually go into a debt reduction policy. That is not supported by everyone in local government, but some councils have taken it on with gusto and have the capacity to actually remove their full debt as a result of a particular one-off transaction like a land sale that has been able to move one asset into another. Ultimately, that is the reason why it was done. But generally, most people accept the fact that there needs to be a certain amount of debt. As indicated by the deputy chair, it is sound financial management because everyone has to have a debt to allow them to transfer costs across intergenerational opportunities.

One of the things that recently came to my attention was the question of intergenerational burdens in terms of infrastructure burdens. As indicated by Mr Montague, it is actually now a question of costs being transferred from one generation to another. That burden is now going to become a major burden on our future population, who will have to have a capacity to actually work it through, and there is going to have to be some mechanism allowing people to raise additional equity to pay for the increased burden associated with infrastructure replacement and management, let alone the current dilemmas we have with urbanisation in our areas. If you look at water run-off, for example, Ryde is severely affected by water run-off and most of our costs and debt are going into stormwater drainage replacement. When you are talking about very built-up areas, it all has to be underground and has to be done using tunnelling and microtunnels. There is a huge cost involved in that and it has to be borne by someone. Ultimately, it is borne by either a capacity to borrow in a limited way or a capacity to actually take down your reserves, which are being built up for a particular purpose. So unfortunately you are robbing Peter to pay Paul.

**Mr Gooding**—The issue of intergenerational equity is an absolutely critical one. In fact, it is a major if unrecognised form of cost shifting. Basically, what we are doing is shifting costs on to future generations of people because we cannot pay for them at the moment, for the reasons that you outlined.

**CHAIR**—It is nowhere more obvious, of course, than in letting the infrastructure run down. We will have a short break.

**Proceedings suspended from 10.24 a.m. to 10.43 a.m.**

**CHAIR**—One of the major questions is: how do we consider some of the options for funding local government? You have all seen the options paper and the questionnaire. Can we bounce some views around on what people see as the desirable way to go? Who wants to kick off?

**Ms Holloway**—Are you talking about funding from the Commonwealth?

**CHAIR**—Yes, but we need to bear in mind, of course, that, as you know, one of the terms of reference for this inquiry is that it is to be revenue neutral for the Commonwealth. So any changes would obviously have to be compensated somewhere else.

**Ms Holloway**—I will start by having a look at the various options which were outlined at the beginning of the questionnaire. Is that what you want to focus on?

**CHAIR**—Yes.

**Ms Holloway**—I can say what we have supported. Certainly, having a direct funding arrangement from the Commonwealth to local government would be preferable. But, clearly, that would not be without any strings attached. There need to be strings attached. Under option 1a there is a whole list of different items, and it was almost like you had to tick ‘yes’ or ‘no’. I found myself ticking ‘yes’ and ‘no’, because some I would accept and others I would not.

There is no problem about a clear statement of the Commonwealth’s policy intent and so on and about having accountability requirements for the funds received, but my council and I would strenuously resist a reduction in the minimum grant—and making grants conditional on structural reform is, I think, not fair. A reduction in the minimum grant would only add to the burden on councils. North Sydney council gets the minimum grant and, even though it is a small proportion of the budget, it is still very important as part of our revenue. So I would support a direct arrangement but with a structure in place to ensure accountability for the funds spent. That would not be tied to specific programs, and we are talking here about financial assistance grants, unless it were for a program like HACC or whatever where there are particular program outcomes to be achieved—so financial assistance grants not tied to a particular program outcome but to general outcomes.

**CHAIR**—In terms of infrastructure, where do you stand on Roads to Recovery, for example?

**Ms Holloway**—That is a particular program grant for a program outcome. Clearly the money there is provided to achieve improvements in roads. But the financial assistance grants have been a contribution to the general operation of councils as opposed to specific outcomes in a particular Commonwealth program area. I think it would be unfortunate if that were changed, because it would constrain council’s ability to deliver on its overall responsibilities.

**Ms BURKE**—You would not want to see a reintroduction of a tied funding model then?

**Ms Holloway**—I am saying no. Obviously at some stage the questionnaire talks about local government taking on the delivery of Commonwealth programs specifically and accreditation processes and whatever, but that is a different matter. If local government is acting as an agent for the Commonwealth to deliver particular programs then, yes, local government needs to be accredited—as child care or HACC aged care services are currently—and money provided for a particular purpose. That is one means of funding. But financial assistance grants have been a general grant and should remain so.

**CHAIR**—There are two other points under option 1a.

**Ms Holloway**—I have answered yes to both. There needs to be a removal of unwarranted state restrictions on local government revenue. We just spent the last 1½ hours talking about that.

**CHAIR**—I just wanted to get that on the record.

**Ms Holloway**—But clearly when we receive any funds we need to be able to account for them and report on our expenditure—that the funds have been appropriately expended to achieve outcomes.

**CHAIR**—Thank you.

**Mr Montague**—Chair, could I just seek clarification on the comment that you made earlier about the changes being revenue neutral—I think that was the expression you used. You said that, if there were additional payments, they would be compensated for elsewhere. Was that in payments to local government or generally in terms of government outlays?

**CHAIR**—I am not trying to pre-empt any outcomes here. It is a discipline, I think, on this whole inquiry to say that, if there is going to be additional revenue found for local government, there has to be a reduction somewhere else, which presumably would be in the states.

**Mr Montague**—That answers the question, thank you.

**Mr Haynes**—Chair, I have a question in regard to a comment that Penny made. If there is some opportunity for local government to deliver some other programs in a more efficient way than the Commonwealth is currently delivering them then there would be an opportunity to put some of that federal money back into local government to do that, wouldn't there? So that would be another area.

**CHAIR**—Would you like to expand on that?

**Mr Haynes**—In terms of whether there is an expansion of the HACC program, which is currently being delivered by the department of health or even social services to that extent, and particularly in terms of rural areas where there might be some opportunity to rationalise through the councils already having a presence, perhaps a reduction in the presence in some of those areas by the federal agencies could free up some money.

**Mr Montague**—I think, too, there needs to be some realignment of the government's budget projections themselves. I remember one example—I think it is from some years ago now—where there was a reduction in the child-care subsidies, the relief for particular families for child care. That was a particular burden for a lot of councils who conduct long day care centres, as we do. I think the government needs to think about that, too—that, if it makes a decision to meet its own budget outcomes setting, that does not impact negatively on the service the council is already providing. What happened in Canterbury's case was that we took up the slack. Effectively, we paid the subsidy. We cannot afford to continue to do that. There is a mixture of income earners in our area. Some are high-income earners and most, I would think, are middle to lower income earners, and those subsidies were very, very important. When the government is sitting down working out its own budget settings for a particular year, it needs to keep in mind too that there is no real reduction in funding for services that councils are already heavily committed to and that already enjoy some Commonwealth government support in a funding sense.

**Mr Gooding**—That is also an important issue in the context of what Cliff was saying. I think it is quite appropriate to look at local government providing that sort of service, especially in rural areas, on a fee-for-service basis to the Commonwealth in terms of providing access to Commonwealth services. As somebody put it to me once, half the time people will turn up at the council anyway, whether or not it is a council service they want to complain about or access. Following on from that point is that, if that does occur, we do not want councils to be locked into some arrangement and then, somewhere down the track, have either the state or federal government renegeing on or reducing its level of support once councils have been drawn into that. That tended to be the pattern in the past.

**Mr Smith**—I think that is a reasonable comment. There have been times when programs have been started and there is an expectation from the community that those programs will continue. The funding is withdrawn—whether it be a federal or state issue—and the community still expects those programs to continue. The only way they are continued is if the councils pick up the difference. They are implications that are at times not necessarily understood by the other levels of government.

**Ms BURKE**—One of the things I have explored around the country is this notion that local government has always responded to community expectations and demands, which is laudable, but we would all like to do that if we had an endless pot of money. So the other thing I have always asked about is this notion of managing community expectation. It is very hard if you have run a service and you have to take it away—it is always the hardest give—but some councils have now said, 'If there aren't the funds there, we're just not doing it, because we can't anymore.' One of the local councils in my neck of the woods now has three swimming pools instead of the one it wanted, because the community said, 'You can't close our pool,' which is a reasonable thing, and supported them. But the council cannot afford to run three pools, so at some point there has to be this notion of managing community expectation. I find it a bit scary when we listen to people around the country say, 'We've got to give our community everything they want; we've got to be nice.' I would really like my universities to be funded in the way I would like them to be, too.

**Ms Gibbs**—That is a fair point—to 'just say no'. It is very difficult to do, as you know.

**Ms BURKE**—Totally!

**Ms Gibbs**—However, a lot of the actions of other levels of government do actually impact directly on local government. Jim gave a stark example. But there are also extra demands—demands for things like improved infrastructure as a result of state government urban consolidation policies, for example, or there is increased traffic on local roads because a new freeway has gone through, which was a decision made by another level of government. Local government has to respond in those situations. Another area that has not really been touched on much today is that issue of advocacy. I think the community tends to have a love-hate relationship with their local council. They bag them mercilessly, but they are the first people they come to when they want to fight a state or federal government proposal. In Sydney, it was the local councils that, in partnership with their communities, led the fight against the Badgerys Creek airport, the third runway and the nuclear reactor at Lucas Heights. So, there is that other issue as well: how do you say no? How can you say no to such proposals?

**Ms GAMBARO**—I think you were speaking earlier about the fact that the council is usually the first port of call. It sometimes happens in the federal sphere as well: people come to me about footpaths, and I think they come to us all about barking dogs et cetera. I would like to ask all of you about new housing developments. I will give you an example. Someone spoke about having a greater say at the table, financially. I represent an outer metropolitan electorate, and more and more housing developments are going up with a huge number of homes. It works the other way around as well. For example, a council may approve a housing development, but then we have no doctors to service it, no essential services and no community services. How do you see the role of local, state and federal governments in planning some of these very vital community type issues? Again, it then falls back on the Commonwealth, as an afterthought, to take care of what has happened. I think a lot more planning needs to be done among the three levels. I am interested as to how we could fund this, or what your views are.

**Mr Gooding**—I could spend a long time talking about that, because WSROC represents a huge slice of the outer urban area of Sydney. In fact, one of the issues we are constantly engaging in with state and federal government is about the provision of infrastructure and services to service that population growth. As an example, over the next 20 years, Western Sydney will grow by over 500,000 people. When I say ‘grow’, most of that is actually a natural increase from the population that has already moved into the area. That figure is bigger than the population of Tasmania, and we will have to accommodate that increase in the region over the next 20 years. There are huge issues about planning and about infrastructure provision at all levels, which just have not been fully addressed. We are dealing with some of those issues through a planning process we have initiated, which will also feed into the state government’s Plan First process. One of the issues we have is the provision of infrastructure and services for that growth.

Obviously, there are elements of that growth that are contested and debated in specific areas around the region—whether the growth is consolidation in some of the middle ring councils, or new release areas on the outer ring. It is a fact of life that that growth will occur, as I said, mostly because of the population increase in the region. We do need a much better level of consolidation and commitment to the provision of services in that area. We also need the involvement of all levels of government. This is one of the things that has concerned us most of all. One of the things we touched on in the WSROC submission was the need for the

Commonwealth to be engaged in some way in the provision of infrastructure and services in urban regions. I think there has been a tendency at the federal level—not only by the government but also, to some extent, by the opposition—to focus on rural regions. When you say ‘regional’, people instinctively think of rural regions.

**Ms GAMBARO**—Yes: rural regions and people who live out there.

**Mr Gooding**—And they do not think about outer urban regions, like Western Sydney, outer Melbourne or the equivalent in other states. I think we need much greater Commonwealth engagement in some of those issues. Australia is one of the few countries in the world, for example, where the federal government has little or no involvement in the funding or provision of urban public transport. Even in the United States of America, the federal government has a role in providing urban public transport. I am not saying it has the dominant role; I am saying it makes a major contribution. They are some of the issues we have to address—the other aspects of this whole debate of cost shifting and of not providing adequate infrastructure. We are already seeing some of the problems in Western Sydney from decisions that were made 10, 15 or 20 years ago, about where developments should be located, about the lack of provision of infrastructure and about the huge cost that is now involved in retro-fitting infrastructure, like public transport, into those areas. We are trying to set up a system—a framework—for decision making, which involves all levels of government, to try and avoid those sorts of mistakes in the future.

**Ms GAMBARO**—Thank you for that.

**Ms Gibbs**—I would like to make a point about Roads to Recovery. It is very welcome and I think there is widespread support for Roads to Recovery, but it does really highlight in my mind a symptom of the problem, which is that we had to respond to what was almost a crisis, because there was no ongoing mechanism to fund the recovery of roads. It is very welcome but it is a bit of a knee-jerk response and a bandaid solution. If we had had some sort of agreement on funding earlier on it would not have been necessary. It does highlight the issues that we are dealing with.

**CHAIR**—That is a fair comment but I hope that this inquiry is all about trying to address the wider problem. Clearly we do recognise the serious financial difficulties that local government is facing right across Australia and that is why we have this inquiry running to try and get some long-term solutions.

**Mr Montague**—A good start might be to go back to the mid-1970s when the personal income tax receipts were fixed—there was a fixed percentage. That of course has been whittled away over time. Maybe we should look at restoring that as a start—a certain percentage of personal income tax collections going directly, untied, from the Commonwealth government to local government. Roads to Recovery and other similar programs are very good. Obviously there is not enough, and that is always the problem, but those specifically targeted programs where there is an identifiable outcome such as better infrastructure—drainage, roads, whatever it might be—are great. Again, that should go directly to local government for specific programs that are then accounted for. Obviously we would have to account for them—that the money has been spent—and I think most people would accept that that is a reasonable way forward, particularly for regional roads and roads that have heavy traffic from non-residential users. The

road hierarchy itself is another issue, but there are certain streets and roads right across Sydney that, while they may not be collectors, still have very heavy traffic—often from people who do not live in the area.

**CHAIR**—These are local roads?

**Mr Montague**—Yes, they are local roads, but they are deteriorating too.

**CHAIR**—But that is what Roads to Recovery is aimed at.

**Mr Montague**—Yes, of course. I understand that, but if the funding could be ramped up—

**Ms BURKE**—You would like to see Roads to Recovery continue, I take it?

**Mr Montague**—Of course. More money, please!

**CHAIR**—I do not know anyone who doesn't. On the level of funding, under the financial assistance grants New South Wales—and Roads to Recovery—gets about a third of the total Commonwealth outlays. How much do you really think is needed to address this?

**Mr Montague**—With respect, how long is a piece of string?

**CHAIR**—I think that the identified infrastructure shortfall nationally is around \$1 billion, depending on your methodology.

**Mr Gooding**—Is that for local government?

**CHAIR**—That is infrastructure.

**Mr Gooding**—Local government infrastructure?

**CHAIR**—Yes.

**Mr Gooding**—However you define it.

**Councillor May**—Is that per annum?

**CHAIR**—Yes.

**Mr Montague**—We have a fairly sophisticated system for identifying the condition of our infrastructure, particularly roads. They are graded and there is an index. We would need tens of millions of dollars to get the road system up to say condition 3, which is the middle, if you like—certainly not the best condition, but much better than some of the roads are now. We are working towards that, but it might take us 25 years to get the roads to the standard which, according to our information, would be desirable. That is a very long time and of course in the meantime other roads are also deteriorating. There is the ongoing problem of which ones you do

first. If you have the information, which we do, then you need the money to go with it so that you can get the repairs and renewal work done in a reasonable timeframe.

**Dr Griffin**—There has been some comment made about whether the financial assistance grants should be tied or untied. The view seems to be that they should remain untied. I would not have a problem with them being tied, so long as the quantum was appropriate and they were guaranteed ongoing so that you knew where you were, because it is all in the planning of your finances, as Jim has said. If you can be sure of your finances your planning can accommodate this, and if it is at the appropriate quantum that could be a way of tying efficiency gains to that particular aspect.

**Mr McBride**—From the association's point of view, we cannot support that line. We believe the FAGs should remain untied. It is a different matter for specific purpose programs and payments like Roads to Recovery. On the question of infrastructure, I note that your option 4 refers to conducting a national study into local infrastructure needs. We certainly would support that and I think it is long overdue.

I know a couple of other states, notably South Australia and Victoria, have undertaken fairly comprehensive reviews in recent years, and the numbers they have come up with certainly far exceed the \$1 billion that you mentioned. South Australia alone, I think, has come to a much larger number than that just for its road infrastructure. Nationally, putting New South Wales and Queensland into the equation, I think we are talking tens of billions not single billions.

**CHAIR**—I am talking about an annual figure.

**Mr Montague**—\$1 billion annually.

**CHAIR**—Are there any other comments?

**Mr Truman**—I am assisting NSROC today. My point builds on what Jim has said. If the relationship between the Commonwealth and individual local governments were one of an apportionment of growth tax—whether it be income tax or GST—that in itself would allow local government to make better use of debt, because it would give us a guaranteed share of growth revenue. We could then gear our debt to something that was more confident in terms of future growth. In fact, the overall financial capacity would be assisted if we had that situation. That takes the whole issue away, too, from whether or not rates are pegged. That is a state issue which we will not resolve around this table or through this inquiry.

**CHAIR**—Still, I think the inquiry is very interested in why New South Wales seems to be so hung up on rate pegging.

**Mr Truman**—It is an interesting question, but I do not think you will resolve it through the inquiry.

**Mr Smith**—It is a political thing. Both sides of politics agree that rate pegging will stay, no matter what. They both have the exact same policy position.

**CHAIR**—I will follow up on the growth tax. If you look at the Grants Commission figures over the last 25 years, the average increase in Commonwealth funding has been about 4.3 per cent, which today is pretty much in line with inflation. What sort of growth rate do you think is adequate? I am coming at my earlier question from another angle.

**Mr Truman**—If you take the approach of apportioning part of income tax or GST, it increases that base of something that is keeping pace with inflation, as opposed to the uncertainties about rate revenue. I am talking about increasing capacity. To what extent? That is obviously something that would need to be worked out. It would certainly increase the base of reliable financial capacity if there were a larger component that was in fact related to a growth tax revenue.

**Mr Haynes**—Perhaps the question is: what has been the increase in tax revenue for the federal government compared to the amount that has been allocated to financial assistance to local government in that period?

**CHAIR**—Clearly, if you take personal income tax, it is lumpy because of significant reductions two or three years ago.

**Mr Haynes**—Take total tax. There has been a replacement—there has been FBT, GST and personal income tax. If you looked at the total of that, the increase in that over the same period, and compared it with the allocation to local government assistance, I am sure you would find a large disparity. And that is the issue: can we get some of that growth? That is the way it was originally intended when the financial assistance grant was first introduced, as Jim pointed out—the two per cent of personal income tax. That would have changed, obviously, because the tax structure has changed over time.

**Ms BURKE**—One of the other changes was the way you actually get your money. The actual formulation, since FAGS was introduced, was one of the other changes along the way. There was a different revenue base before that. The name of it totally escapes me at this point of the day; I have been up too long. Something else that is going round and round in this discussion is, obviously, the operation of the state grants commission and its say about how the funding that comes to Sydney then gets divvied up. My broad, open question is about whether people would want to see the state grants commission continue, go or be replaced. Would you prefer to just have a direct relationship with the Commonwealth without state grants commission intervention or state government involvement?

**Mr McMahon**—I was waiting for this question to come up.

**Ms Holloway**—If we are talking about this being budget neutral, one way of saving some money would be to dispense with the middle person, which is the state grants commission—

**CHAIR**—I thought you were going to say government!

**Ms Holloway**—No—and redirect those funds directly to local government. It seems to me to be a layer of administration that is not necessary. If you have the funding formula established, the funds should flow directly.

**Mr McMahon**—The whole premise of this committee and the inquiry that has been going on is about the relationship between local government and the federal sphere. A classic way of introducing this would be to cut out the state bureaucracy that manages particular funding to local government and to make sure that it is done nationally. If that works successfully, the next phase of that process could be, as part of the overall broader strategies, reviewing the way that GST is distributed nationally and possibly allowing for some form of increase in the amount of money that is directly distributed to local government—through the same means at a national level. If that premise is followed, you will probably find—similar to what was indicated by Gordon Truman over there—that your capacity to know your longer term commitments and therefore your longer term revenue base will equal your longer term demands and possibly take out of the equation too some of the uncertainty about the political fragmentation of local government caused through unbridled demands from the community, with those demands being understood to be for a fixed amount of money that is coming in from federal and property tax rates. You could then go back to your individual communities and say, ‘We are unable to meet your demand because we have a certain five- to 10-year strategy out there planned to distribute those funds over that period and therefore we are unable to meet that particular demand unless it is on what they call a revenue neutrality basis,’ which is similar to what the inquiry is doing here.

**CHAIR**—Are there any other comments on that?

**Mr Smith**—I agree with Michael: I cannot see the sense in having another layer of bureaucracy for distributing funds that are supposed to be distributed on the basis of a particular formula. I do not want to get into a very long and drawn-out debate about the principles of horizontal fiscal equalisation. The 14 councils in Sydney are currently on a per capita minimum. I do not know just how differently each of the state grants commissions distribute the money in the pie. If this state’s grants commission did not play with the formula, we would not even get a per capita minimum; we would actually be paying money back because of our property values. Again, that is a phenomenon that is peculiar to Sydney, not necessarily to anywhere else. Without getting a full-blown study of it, I am pretty sure I would be pretty right. I have spent a lot of time playing with this formula over many years and we just do not get the disability allowances that other areas get. That is what the equalisation principle is all about and I do not want to argue that. I think that the principle of the formula is fine, but it is the distribution of it that needs some sort of review. If you are looking to maintain neutrality in all these things, New South Wales would argue that we ought to get some of the pie back, but of course that means that other states will miss out and we know how that will go.

**Ms BURKE**—Well, Teresa and I aren’t voting for that!

**Mr Smith**—Again, I do not necessarily think that is unreasonable either. The point I am making is that, if there is a notion of getting rid of that level of bureaucracy—which hopefully would free up several million dollars that could go directly to the councils—then the formula would need to be reviewed to ensure that we get no less than what we are getting now.

**Mr Gooding**—The question then is: who does the actual reviewing to ensure that that occurs? I can see the principle of abolishing the grants commission, but I am slightly concerned that it might be a case of ‘Be careful what you wish for.’

**Mr Smith**—But we are big people, so if we sit down and get a group of people around the table I am sure it can be worked out. I do not think these things are that hard.

**Ms BURKE**—One of the interesting things is that we have not had consensus on this view from all the states. Some of the states want to maintain it because they believe that if it goes nationally it is too far removed: you are too far away to actually have an understanding of the nuances that then relate back to your local council. We were surprised by the adamancy of the view of the people in Victoria. Queensland was a bit different because we had two of the councillors who sat on the grants commission in front of us so it was probably a bit of a different mix, but it has not been a universal situation.

**Mr Smith**—There may well be an opportunity to introduce some sort of regional component into this.

**CHAIR**—What about looking at the SES socioeconomic status funding formula, which has been used for funding for non-government schools? The idea is that it takes by postcode the income of a particular area and says there are so many people from that area feeding into a particular school, therefore the school's level of funding from the Commonwealth should be set accordingly. Is there any reaction to that?

**Mr Haynes**—One of the difficulties with the proposal, as Alex talks about, is that we do not know what the final recipe is to be able to comment on whether or not that is an appropriate mechanism. If you are talking about that SES form of funding as another mechanism of determining the disability factors that are applied within New South Wales, then that may have some value provided there are the sorts of things that Barry is talking about where the minimum amount, which we all rely on, is retained in some way. In terms of what the role of the current grants commission is, how that gets replaced is the issue. You would need to see what other overall model is within the final report before you could just say yes, we could remove that layer.

**CHAIR**—We are floating the options at this stage and we are just seeking responses.

**Mr Haynes**—My response is that I could not say I agree with that without understanding whether or not there was going to be a retained element and if there was going to be some general application maybe like the SES one. It may be something that can be supported.

**Mr McBride**—I think you would really need to model the outcomes before local government would comment on that. There are winners and losers in every change and that is the fundamental difficulty with those types of proposals. Getting back to the grants commission thing, I think one of the practical difficulties in removing the state layer would be getting agreement between the local governments in each state on what the principles and allocation mechanisms would be. It has probably taken decades to get to the level of stability that they have now. There are always some simmering issues, like distribution issues, just below the surface in all these things. With respect to saving millions, only two people really operate the grants commission. I do not think Bruce gets paid that much!

**Mr Smith**—I meant across the nation, not in New South Wales. I know there are only two and a bit in New South Wales.

**CHAIR**—This raises another question. If, as you have made the point fairly strongly to the committee today, there are a number of inequities in the way local government is funded in New South Wales and there are a number of cost shifting issues—you have problems with rate pegging and so on—and if we were to go to a national system and bypass the state, do you think local government in New South Wales should be compensated for the fact that the state has treated you, as you perceive, fairly harshly?

**Mr Smith**—We would all say yes.

**CHAIR**—Therefore conversely should the New South Wales government be—

**Mr Jones**—That lets them off the hook, to coin a phrase.

**CHAIR**—But who is going to do that? What is the quid pro quo?

**Ms Holloway**—I do not think that local government should be compensated. But we should not be punished and I think that is the other side of the coin. Clearly local government has to work on prevailing upon the state government here to change its attitude and there has to be financial reform, as we have talked about. As for the Commonwealth compensating local government for state government shortcomings, I do not think that is reasonable but I do not think local government in New South Wales should be punished because there is rate pegging in place.

**CHAIR**—How are we going to solve this little dilemma?

**Mr Montague**—I am not sure that local government has been treated that badly by the state government over the years. Rate pegging has been immensely popular with both sides of politics. My understanding is that no government, be they a Labor government or a coalition government, will remove rate pegging. I think that is a shame because I think there is a fixation about it and they need to review that. Clearly, before there is any relaxation of rate pegging there need to be some fairly serious principles established that prevent the sorts of excesses that characterised the pre rate pegging era.

I can remember back in the 1960s and early 1970s a particular council that I worked for then increased the rates by 43 per cent in one year. It was outrageous but they were able to get away with it. That does not happen anymore. It has not happened since 1976 when rate pegging was introduced. For that very reason I think there is a degree of cynicism on the part of state government about whether local government can be trusted to be responsible with that sort of ability. There is a strong case for some retention of control over rate increases but I do not think rate pegging is the answer. There needs to be a review of rate pegging to give councils access to secure and adequate funds.

To give you a quick example: Canterbury City Council introduced, as Barry alluded to earlier, an infrastructure levy—we call it a ‘roads and footpaths levy’. It was approved. It was a levy of about five per cent which raised \$4.8 million over three years. We are in the third year of the levy and it has only a three-year life. But the minister approved it. I can tell this committee that the approach has been extremely successful in Canterbury because the community accepted it for one very simple reason: they could see that the money was being spent for the purpose that

we raised it. Every household was notified before their street was affected and the process has been very successful. We have had very few, if any, complaints about the introduction of that levy. It has a three-year life span but, in a sense, we have gone around rate pegging. It is an extra \$4.8 million that the council was able to raise to carry out essential infrastructure work, but we could not have done otherwise.

That is what I am trying to get to: there needs to be that level of maturity on the part of those councils and the state government to accept that councils have got a legitimate role to play and they need the money to do it. No matter how you raise it, it really does not make a lot of difference as long as there is an acceptance that councils have a legitimate right to have access to a secure and adequate level of funding.

**CHAIR**—Has any other council followed that path?

**Mr Haynes**—Yes, Parramatta have done that, Mr Chairman, for 10 years. There is a 10-year program in Parramatta for infrastructure improvement.

**Mr Smith**—Jim is quite right. It is about having some sort of principles. I am pretty sure that the rate pegging reform task force is looking at some sort of principles that allow an objective assessment of those particular things. This council has tried for four consecutive years to get some sort of a levy up similar to the one Jim was talking about—whether it is for infrastructure or for environmental issues or whatever else. We were successful last year because we now have to acquire compulsorily some land that the council has zoned 9D—and Penny has got the same problem. In its LEP in 1979 it became foreshore access land.

One of our residents has decided that we should buy it. It is about \$2 million for a piece of goat country, but that is beside the point. We were successful in going to our community and asking them whether we needed to borrow the money to do it. The community said yes, and the government said that we were successful. That is the only time we have been able to get that. The life of the loan is 10 years. It is perfectly legitimate and logical. I do not see the sense in trying to go back and punish people for the sins of the past. We have to move on. Picking up on a point made earlier, there is not a coordinated approach to long-term planning for transport, economic development, infrastructure or fiscal reform, it seems to me, anywhere in this country.

**CHAIR**—Hopefully, AusLink is going to address one of those.

**Mr Smith**—Maybe. But we will not start that debate, will we? There are a few concerns about that as well. There is not a coordinated approach to growth management. The debate seems to have been about immigration but the reality is this is where the population is. The population is in Sydney; it is coming to Sydney; it does not leave Sydney. What is the growth strategy for dealing with that? It has to be a federal, state and local issue. We have been trying to deal with this for years.

We will throw the roads issue in—or rail, for want of a better word. We have identified that a significant part of the growth in jobs in Sydney is within northern Sydney. Ryde is one of the biggest producers of jobs in Sydney at the moment, but the market of people is in Western Sydney. How do you link the people with the jobs? It is the Parramatta-Chatswood Rail Link,

the Parramatta-Liverpool RailTrail, it is the Western Sydney Orbital—is all those sorts of things.

**Ms Gibbs**—It is also linked to housing affordability.

**Mr Smith**—Yes, where is the housing affordability? It is that way. But where is the coordinated approach to managing that growth? It would be the same in every capital city in this nation.

**Mr Gooding**—To take up that point on AusLink, I think one of the issues—and I may be opening up a completely separate can of worms—is that it talks about the major freight corridors and, at this stage, it does not necessarily address the issues that Barry has identified.

**Mr Smith**—It does not address the urban roads.

**Mr Gooding**—And urban public transport. They are absolutely critical. If we want to do something really meaningful about supporting local infrastructure, one of the things we could do would be to put some resources into public transport to get the people who do not need to be there off the roads. That is one of the things that has to happen; otherwise, we will just continue to play catch-up for the next 50 to 100 years.

**Mr Smith**—As far as this inquiry goes, yes, we are addressing the fiscal component of growth management but we are not really looking at the planning, economic, transportation and overall management of growth. We are not going to get any smaller as a country; we are only going to get larger.

**CHAIR**—I think it is a fascinating subject but it is not really for us.

**Mr Smith**—It is not for today, but I would have thought there was absolutely no reason that this committee should not make recommendations about those issues as an outcome of the whole process.

**Mr Gooding**—Or at least for the committee to know that they may need to be addressed.

**Mr Smith**—They have to be addressed.

**Mr McMahon**—I would like to add to something that Jim Montague said about the question of being responsible and accountable. I wonder if the inquiry is aware that, under the rating system within New South Wales, the rates themselves are pegged but there is another section of our rating system that involves domestic waste charges. They are not pegged. The situation is that the rating system is broken down into these two categories—it happened I think in around 1993 when they introduced the domestic waste charges. They gave the capacity to set a charge per property for the removal of garbage, for the containers used in recycling and for the recycling services themselves. They are charges that are determined by the individual local authority and the individual local authority has been responsible and accountable for those charges.

To some degree, it does exemplify the fact that local government has been responsible. There has been no rate limit imposed upon those domestic charges, but once they were established, the councils were entitled to introduce new services and pass the charge back to the ratepayers. The ratepayers see that as a way of ensuring that what they are paying for is what they are receiving. In terms of overall cost, we are only talking about \$5 to \$6 per week for the services being offered by the local authority.

It is a way of exemplifying how effective the system has been. The state government and other forms of government can take the lead in understanding how local government has been responsible and accountable for delivering those services at a reasonable cost. I think that adds to what Jim Montague said about being capable of ensuring that the future of local government is sound, as long as you can demonstrate to your community how sound these systems and costs are that are being introduced, that they are controlled and managed and that the ratepayers can see them being done in an effective way.

**Ms BURKE**—You haven't seen any blow-out in costs?

**Mr McMahan**—No, there has been no blow-out of costs.

**Ms BURKE**—I meant blow-out in rate rises and people saying, 'We'll put that one up to fund some infrastructure.' No cross-subsidisation?

**Mr McMahan**—There is no cross-subsidisation. You must have a direct cost. That is audited by external auditors to make sure that the costs you incur are equal to the amount of money raised. At the end of the day there are no crossovers. You can have a small surplus achieved to carry expenses that might be incurred in managing that particular service for the council and there may be some administrative costs that are received and accounted for on that basis.

**Ms BURKE**—I thought councils always had external audits. They are called elections. At the end of the day the councillors are beholden anyway. They are always going to be under public scrutiny every three or four years, depending on where you are.

**Mr McMahan**—Or 4½ years, as the case may be.

**Ms BURKE**—Four-and-a-half years is the current state in New South Wales. I find some of the arguments a bit bizarre in so far as there is a process of checks and balances from the local community every four years.

**Mr Smith**—People continue to vote for the same people all the time. They vote for the name they see on the ballot paper that is familiar to them. They do not necessarily examine the performance of their local authority when making decisions about voting. It is a fact.

**CHAIR**—That is up to the candidates.

**Ms BURKE**—In Victoria half our local governments have just gone through elections and there has been absolute universal throwing out of incumbents. In one of the municipalities that covers my area one councillor out of eight has been retained. The rest were all voted out.

**Ms Gibbs**—The ultimate audit is the ballot box. At least in New South Wales, which is different from other states, there is compulsory voting. You do get a thorough testing every four years. In other states where they do not have compulsory voting you might need only your mother and father to vote for you to find yourself elected to council.

**Mr Smith**—I think you will find that representation changes in New South Wales when there is a planning or development type issue. That is when something happens. If it is fiscal, little happens. I will use the example of the council I spoke about earlier: it was technically bankrupt and eight of the 12 councillors stood for re-election and were all re-elected.

**Mr McBride**—In the other states without rate pegging the records show that on average there have not been any major blow-outs anyway. As I said, a couple of states are probably marginally higher than New South Wales, one might be a little below. The electoral process has kept the reins on, as it does.

**CHAIR**—It does not always, as in Jim's example.

**Ms Gibbs**—I want to raise a nitty-gritty nuts and bolts issue to do with FAGs. One of the issues that we raised in our submission was the need to remove the Treasurer's discretion in respect of the annual increase in FAGs. That was not addressed in the discussion paper. I do not know whether it has been raised in other hearings or submissions.

**Ms BURKE**—From the submissions I have read, yours is the only one that mentions it.

**Ms Gibbs**—It did actually occur a few years ago—in 1996 or 1997, I think. The Treasurer did use his discretion to reduce the increase. I think it was \$15 million or something.

**Ms BURKE**—I was surprised that you put that in. You do not want to have some overriding discretion? You do not want some other sort of thing to apply? At the end of the day, the Treasurer generally has discretion over most things.

**Ms Gibbs**—I am not suggesting that it should carry on ad infinitum. We do have the Commonwealth Grants Commission and maybe they should be reviewing it every five years.

**Ms BURKE**—Did most of you put in reports to the recent review of the Commonwealth Grants Commission?

**Ms Gibbs**—I think so.

**Mr McBride**—The state associations did.

**Ms BURKE**—Were there any comments on that process and their recommendations? Part of what we are doing will obviously dovetail into that.

**Mr McBride**—We were actively involved in the process. We made our submissions and went to the roundtable in Canberra. We were generally supportive of their findings. We found some of them quite positive, one in particular being that they finally recognised the issue of cost

shifting, which is something they did record for the first time. From memory, we were generally supportive of most of their findings.

**Ms Gibbs**—We were also a bit concerned about the notion of declared local bodies. We found out what they actually were, and there are a couple that I am aware of—one of them is the Sydney Harbour Foreshore Authority and the other is the South Sydney Development Corporation—just in the area that I am familiar with. They are actually listed as declared local government bodies. We would suggest that the notion of democratically elected local government bodies should prevail rather than there being one-off payments to what to me are non-representative state government bodies.

**CHAIR**—Are there any other comments on that?

**Mr Montague**—I have just a very simple point to make so it is on the record. I think two things need to be reviewed. One is the issue of rate exemption for Commonwealth and state properties. I think that needs to be reviewed. I cannot see why that persists today, given that the council pays full freight. The abolition of sales tax exemptions is one example. Why should other levels of government receive any concessions of that nature? I think that needs to be reviewed.

I think in a state context there does need to be further attention given to this issue of pensioner rebates. I think the comment was made much earlier today that that also has been whittled back. Certainly that affects most councils. I think that is one simple thing that could be worthy of some review at this time. The costs are rising. In our case, out of our 40,000-odd rate assessments, 8,000 are for eligible pensioners. There is a direct cost there. In the old days, you got the full subsidy back—correct me if I am wrong, Barry. Now you get half of it.

**Mr Smith**—You get half back.

**Mr Haynes**—And a lot of councils had a voluntary pensioner system where they matched it.

**Mr Smith**—The half which was compulsory from the state was reduced to 25 per cent. That was halved.

**Mr Montague**—That was one of those examples where something that had been in place for many years and that the council had relied on—in fact, it had introduced policies to assist local pensioners based on the certainty of that—was stripped away. There was no compensation in a financial sense.

**CHAIR**—What sorts of amounts are we talking about?

**Mr Montague**—In larger councils you are talking millions. This is a very large concession, and it is something that, frankly, I think is a bit anachronistic, with due respect to our older citizens. We are in the era of user pays, and I cannot understand why in this day and age these sorts of things continue, particularly on the current basis, as opposed to the basis it used to be on. But, in a large council of Canterbury's size where you have 8,000 pensioner assessments, the costs are very significant. As the council grows in size and perhaps with changes in demography where more and more older people move into particular areas, the expectation is

that they get free rates. I ask the question: why, in this day and age? I know it is a vexing issue, but if we are talking about local government and its financial capacity—and it is not really an emotional topic about the older resident; that is another issue—I am just saying that, if the councils are expected to continue what is a fairly anachronistic policy for a particular sector of the community, there should be some recognition of that in a financial sense. Certainly, over time, in my experience, the preservation of those policies has been very costly.

**Mr McBride**—The cost to local government state wide is about \$65 million per year.

**CHAIR**—And it is compulsory—the state legislates that you do it?

**Mr McBride**—It is in the Local Government Act.

**Mr Haynes**—In terms of looking at consistency across the board, while you made the comment that there was not any one model of local government—there were lots of variations from state to state—there must be some common areas such as assistance to pensioners where there is a different approach in different states. Perhaps even what would be a common approach could be drawn out—maybe something each of the states might consider as a result of this—or perhaps you could make some recommendations in that area. There may be others where there are different levels of support from each of the states in some areas that could be drawn out. In the same way, I think there is an opportunity through this to provide some leadership over this whole asset management question amongst the different states, because that is what is being looked for. If there is to be more funding provided by local government towards asset management, which there needs to be, then perhaps there is an opportunity through this approach to actually recommend that and we can seek some different approaches. Maybe we could look at one similar to the approach that was adopted in New Zealand for local government, remembering that there are only two levels of government over there. I think that is where the inquiry could perhaps assist: in coming up with some progressive conclusions that could assist with the other states and local government generally.

**Ms GAMBARO**—Jim, you talked about rate assistance to pensioners, and you said ‘free rates’. Are you talking about a percentage of the rates, or are things different in New South Wales in terms of what sorts of rebates pensioners get?

**Mr Montague**—There is a fixed amount. Somebody might correct me here, but I think it is around \$250.

**Mr Smith**—It is 50 per cent, up to a maximum of \$250.

**Mr Montague**—It is about that number.

**Ms GAMBARO**—Is that 50 per cent of the annual amount?

**Mr Montague**—Yes, it is 50 per cent of the annual bill. Let us say you have a rate bill of \$1,000. Notionally, \$250 can be written off, but the council gets 25 per cent of that back. In the old days, we got the full amount of that back. Some councils had voluntary programs—and perhaps that is why the council I referred to earlier increased the rates by 43 per cent. They actually wrote off all the rates, even if you were not eligible for the government write-off. So, if

you had a rate bill of \$1,000, the whole lot was written off. The local government, the council, wore that cost. And it was a huge cost.

**Ms GAMBARO**—That is if you were a pensioner?

**Mr Montague**—If you were an eligible pensioner and you had a pension card or could prove you were eligible.

**Ms GAMBARO**—No wonder they were in a bad state.

**Mr Montague**—That happens annually, and I think somebody said that the cost around the state is \$60-odd million.

**Mr Haynes**—With the ageing population, in some rural areas, particularly the coastal towns that retired people are moving towards, that is becoming an increasing burden for those councils.

**Dr Griffin**—I think the figure at Tweed is \$1.4 million in a \$22 million rate income.

**CHAIR**—That is about 15 per cent of what the Commonwealth is providing, to put it in another perspective.

**Ms Holloway**—That is right. This support to pensioners is an income security issue, really. It is strange that local government should be carrying what is basically income security.

**Mr Haynes**—A social security benefit is what we are providing. One might ask a question about the level of support that is required to pensioners who own their own homes as against those pensioners who, unfortunately, are paying rent. What level of subsidy do we give them? None. Is that equitable?

**CHAIR**—Does anyone else have a comment on this?

**Mr Montague**—I do not begrudge the pensioners receiving this support—maybe in 10 years I will be looking for it myself. I do not begrudge them that support, but I do not think there is recognition on the part of other governments that, when these policies change, they do not just change their own outcomes or their own projections for their own budgets. They do not understand, I suspect, the impact that has on individual local authorities. These are big costs. We do not have that degree of comfort, we do not have huge reserves and we do not have the ability to absorb those sorts of big hits. I feel there needs to be more recognition that, if you introduce a policy for pension rebates and it is indexed or fixed at a certain rebate to the council—because the thing is compulsory anyway—then that should be maintained. It should be continued. When it is just stripped away, as it was some years ago, that is a huge additional cost, and it is nonsense for people to suggest that we are going to go out into the community and say to the pensioners, ‘You’re not getting your rebate.’ It simply will not happen. So the council is left carrying the can. Other governments should think about the impact those sorts of isolated decisions have on the ability of councils to continue to provide those services.

**Ms GAMBARO**—From a historical perspective, was that rebate always provided by the state government?

**Mr Montague**—Yes.

**Ms GAMBARO**—Things like rent assistance and telephone assistance are done through the Commonwealth. But historically this was always provided by the state government?

**Mr Montague**—Yes.

**Ms GAMBARO**—When did they strip this away? When did they start to decrease payments to you?

**Mr Montague**—I cannot remember. It was in the eighties.

**Ms GAMBARO**—What was the reason given for that?

**Mr Montague**—Budget restrictions.

**Mr McBride**—I understand part of the reasoning, from the state government's point of view at that time, was that local governments were receiving FAGs and so could apply some of the Commonwealth money to the pensioners. So they took back their share or part of their share.

**Ms Gibbs**—I am aware that some of the questions in earlier hearings have related to a proposal to do some sort of assessment of the impact of new legislation on local government. I do not know that that sort of thing would really pick up this issue, because it is dealing with state government but, even if it did, I am not quite sure if those decisions were enshrined in legislation or if they were administrative decisions. If they were administrative decisions, how would we go about assessing the impact on local government in that case, regardless of whether they were state or federal?

**Ms BURKE**—In their submission, a local government association talked about the bill that contained the review of legislation proposal by the Independent member, which obviously did not get up. But we keep hearing that there is an impost upon councils because of legislative change. For example, the first one we got in WA was about the introduction of pool fencing regulations and, of course, the actual enforcement of that was put onto the local council. The other one, which is my favourite, is the 'angry dog' legislation, which is the dog sort of stuff that local government picked up—I always thought that was a local government responsibility! It seems to be fairly constant that there are changes to legislation at both state and federal level—let us be honest about this—that enshrine a role for local government in legislation without local government having some say.

**Ms Holloway**—I certainly support the idea that there needs to be that assessment each time. The issue is that decisions made by governments are made not just through legislation but through policy and program decisions that have an impact as well and are not necessarily going to be picked up.

**Mr Gooding**—It is more than just an assessment; there needs to be a level of agreement, and that should be part of the whole process of negotiating an arrangement for looking at the different levels of responsibility. There needs to be an agreement with local government about its roles and about the level of compensation it is going to get and over what period of time it is going to get it.

**Ms BURKE**—Playing devil's advocate, one of the things I have heard back from various state people is, 'We do negotiate these with the overarching representative body. We come to some agreement, we sign off on it and then we still get the complaints.' WA was a case in point. They said, 'We sat around for months and we came to an agreement. We thought we had an agreement because we were dealing with the local government association; we were not dealing with all our councils but we thought the local government association was acting on their behalf, and they were still unhappy about it.' Again, it gets back to how you represent those people. I am not saying that happens every time, because I know it certainly has not with bits of legislation that have impacted in Victoria, but people obviously see some sort of open process as something that they need to go forward.

**Ms Holloway**—Yes.

**Mr Jones**—I want to come back to something that Jim raised before, because he followed on from something I said about rateable land and non-rateable land and I was going to come back to that. We have spent a lot of time talking about the revenue base and we have spent a lot of time talking about alternative funding mechanisms with the Commonwealth. This is a largely untouched area. I have not read much about this in any of the submissions I have read, although I have not read them all. It is something that needs further work, because there is a lot of money at stake and it is an equity position. I think that is what Jim was trying to get at—there is an equity position about who pays for what. If local government has to pay full freight for a range of other things, there is no longer any real justification for the other two spheres of government not making their just contribution for services provided. So, in the wash-up of this, if you are going to be looking at rates, rate bases and all those sorts of things, perhaps it is the right and proper time to have a serious look at the breadth of the rate base, not just its depth.

**Mr Smith**—That would also go to reviewing the definition of a charity. There are many authorities that gain rate exemption by virtue of being a charity when clearly they are not.

**CHAIR**—I would like to clarify that point, because from an income tax or GST point of view the charity has to be approved by the Australian Taxation Office. Are you talking about groups that do not qualify under that particular criterion?

**Mr Smith**—Yes, they seem to get an exemption from the ATO and that is part of the problem. The best example of these organisations that I can use is the one across the road, which is a retirement village. Half of the people who live in the retirement village are pensioners and half of them are in what is called self-care—they have bought their way in and they could afford to buy their way in, yet, because that whole organisation is a registered charity, they do not pay rates. Why not? We are still providing them with services. They pay for the garbage service, but there are roads, stormwater and all of those sorts of issues. They pay nothing. Also, private schools are there to make money—if they do not make money, they do not survive. Why are they exempt from paying rates?

**CHAIR**—Are there any other examples that people want to raise?

**Mr Montague**—Another example is church buildings that are not houses of worship but are related to the particular church group.

**Mr Smith**—This council was very brave when it did its management plan last year. We actually tackled the issue of non-rateability. Needless to say, I can tell you what the submission was from our residents and non-rate paying persons—they absolutely crucified us. But we had to have the debate to find out what the rest of our community thought about the number of non-rateable properties we had and who did and did not have to pay rates. One of the issues—and Jim raised a good example—is how you come up with a definition of religious properties which are part of the church's activities as opposed to those which are a business component of the church's activities where they make money. So there are some difficulties in all those differentiations. But it certainly is a debate that needs to be had.

**CHAIR**—When you put your case to the local community, did you make these points?

**Mr Smith**—Yes.

**CHAIR**—I am just wondering how you expect us to solve the problem.

**Mr Smith**—I am not asking you to solve the problem; I am simply saying that there needs to be a review of how you get charity status. I guess that is the question that I am raising. Perhaps there needs to be a review of the guidelines.

**CHAIR**—My experience is that it is not easy to get a new organisation onto the list unless they meet the criteria.

**Mr Smith**—I can give you examples of some organisations that have charitable status and you would truly have to wonder how they got it.

**Mr McMahon**—You also talked about other statutory institutions. One example is universities. They are automatically granted exemption from rating even where, to some degree, they conduct business activities within their facility, particularly when they are entertaining overseas students to increase their funding and running department stores, restaurants, bars et cetera to provide facilities to the student body. They are all exempt from rateability, yet all services are provided to those facilities and they are covered by federal government regulation. So to some degree it is probably appropriate for the committee to consider whether or not those universities should continue to be covered by the exemption.

**Mr GRIFFIN**—I will refer that to Brendan Nelson for education reform!

**CHAIR**—It depends which part of Australia you come from. A lot of local communities would kill to have a university campus. That is the difficulty.

**Ms BURKE**—A lot would kill to get rid of them!

**Mr Truman**—Going back to the question you raised earlier about how the funds the Commonwealth distributes to local government should be apportioned, I think the earlier discussion recognised that, although there are many problems, infrastructure shortfall is the major one. It is one that we all share and it is a national problem. Therefore, surely, whatever formula you come up with has to take into account the infrastructure shortfall as it relates to each area if you are going to apportion funds in a way that is really going to tackle the problem.

**CHAIR**—Does Roads to Recovery come somewhere near what you are looking for?

**Mr Truman**—That is about roads. We went through an infrastructure shortfall assessment in a fair bit of detail at Hornsby with various management systems, whereby you predict the life of the asset from the condition it is currently in, and our major shortfall was in drainage—the stuff you do not see. For us it comes to \$20 million. In fact, it is substantially larger than our roads shortfall. There are going to be different answers in different areas.

One source of information, which is probably inadequate, is the depreciation information the department of local government collects. I say it is inadequate because I suspect that the way it is calculated from council to council is still somewhat variable. But there are sources of information that can help you to focus on just what that shortfall is, and that probably needs to be done on a national level. If the Commonwealth is assisting on that level, it is the nearest thing I can think of to an equitable basis for tackling the major problem confronting us.

**CHAIR**—Are there any other comments on that?

**Dr Griffin**—There is the opportunity of assessing that information on the AAS27 accounting standards, which will give you a good picture. In readdressing that, it may not be equitable to all local government authorities. Those local government authorities that put funds into infrastructure and asset management in lieu of moving into other areas would be disadvantaged if there were a degree of equalisation to take up for asset management when the funds were perhaps put into capital projects rather than looking after the maintenance. It is not as simple as is being presented.

**CHAIR**—I think we are back to the wisdom of Solomon question.

**Dr Griffin**—Yes.

**CHAIR**—I thought we might also turn to capacity building. Shaun, do you want to make some comments on that? I think you made reference to it in one of your submissions.

**Mr McBride**—Not at this stage.

**Ms Gibbs**—I have some questions about some of the committee's deliberations, particularly in relation to accreditation. I know it is in the discussion paper, and I am not sure exactly what the committee envisages by accreditation. I know the reasons you want it, and I think we all support it, but I am not quite sure to what extent. What would the accreditation process be and what would it deliver to local government?

**CHAIR**—The aim of accreditation is that if you administer a program on behalf of another tier of government—if you are accredited and show the necessary expertise—that would be a reason for administering that program with funding from another part of government.

**Ms Gibbs**—Would it be based on track record alone, or would there be other administrative hurdles we would have to cross?

**CHAIR**—I do not think we have tried to define precisely what we mean by it, other than to identify the general principle. At other hearings we were seeking the response of councils to that. We would say: if you get accredited, would you be interested in administering particular programs, whether they are aged care or whatever? Generally, the reaction has been positive; although I do not say always. Does anyone else have a concern about that?

**Ms Holloway**—I do not have a concern; I just think it makes sense. It already exists anyway: to provide childcare services you have to be accredited, to provide aged care services you have to be accredited, and there is a process you have to go through. It is a quality assurance program, basically.

**Ms Gibbs**—I think we would all support that, provided you do not have to go through an accreditation process to deliver child care when you are going to be doing a benchmarking study. For example, I hope that there would be different accreditation levels for different programs, rather than a one size fits all system.

**CHAIR**—Yes. I think your points are taken.

**Mr Gooding**—There should be a consistent approach to applying accreditation to state and local government.

**Mr Smith**—I am not too sure what accreditation has to do with capacity building.

**CHAIR**—No; sorry, that was separate. I was trying to get some response to capacity building, but no-one came in on that question.

**Ms Holloway**—Are you including regional cooperation in that? We have not talked about that—it is slightly different from capacity building. I would like to say something in support of regional cooperation. We can do much more within New South Wales to build our regional approach to resource sharing and service delivery. The discussion paper talked about not duplicating regional arrangements, and I would certainly like to speak strongly in support of that. We need to have a single set of regional arrangements, not a whole lot of different ones depending on which level of government you are talking about, because we do get duplication and fragmentation because of different regional boundaries, arrangements, approaches and administration.

**CHAIR**—Do you mean that a state government might be asking you to get together a regional basis for one particular program and another regional one for another program?

**Ms Holloway**—Yes, and the federal government has its own regional boundaries as well and it administers programs on the basis of different regional arrangements. That is quite confusing

and it can also lead to fragmentation, so you get some councils in one regional grouping for one particular program and in another regional grouping for another program joining forces for different approaches to service delivery. I think there needs to be a single arrangement for establishing regions.

**Mr Gooding**—To some extent we would support that—of course we would, being a ROC. There has been a move towards, at least at the state level, the plan-first regional boundaries being reasonably consistent with the ROC boundaries. I would support very strongly what you were saying about not trying to reinvent the wheel. There have been examples of that in the past which have been particularly unfortunate in terms of duplication. It is much more effective, if the Commonwealth is contemplating a regional approach, to use the existing structures where they exist and have the capacity, which in the case of Sydney or Brisbane in the main they do.

**Ms Gibbs**—I have a qualification of that. I obviously support most of what you have said but I think that for things like catchment management, NHT and the like the catchment boundaries are appropriate. They do not always coincide with ROC boundaries—in fact, they very rarely do. I caution against just using the ROC ones.

**Mr Gooding**—We have managed to work with stuff like stormwater management, which has a catchment base overlaid with a ROC base. It has been a bit messy but we have been able to cope with that to some extent.

**Mr Smith**—They are not dissimilar. There are differences in the boundaries but they are not that far out.

**CHAIR**—I think one of the areas to particularly focus on is regional development, where there have been examples of some successful work being done. Tasmania has had a few examples of where they have worked together and got some significant benefits.

**Ms Gibbs**—I think you would be on fairly safe ground in supporting the ROC boundaries where they are viable for things like capacity building of local government, because the ROC boundaries are formed by the councils who have decided that that is the way they want to work together.

**Mr Smith**—There are communities of interest within those areas, so I think that is quite reasonable. The one example I can give you of where the federal government has gone awry is in relation to area consultative committees. There is only one area consultative committee for the whole of Sydney—and you have four representatives of that group here. There is one for the whole of Sydney, so it is the largest area consultative committee in this country.

**Mr Jones**—By a huge margin.

**Mr Smith**—By a heck of a lot. That is one of the issues. When you talk about ‘regional’, let us define ‘regional’. Sydney is a region but there are people who live outside Sydney who do not see Sydney as a region. ‘Region’ tends to imply a notion of somewhere west of the Great Dividing Range.

**Mr Gooding**—Some of us would argue that Sydney is in fact three or four regions all told.

**Mr Smith**—It probably is.

**Ms Holloway**—I would agree with that. That is what I am saying: we need to respect the regional boundaries that have been put in place largely through the ROCs. If they are not accurate, change them but work with the same set of regions rather than different state and federal ones.

**Mr Smith**—From a capacity building point of view, the ROC boundaries as they exist at the moment are probably pretty reasonable based on the fact that there are communities of interest within those particular boundaries but I would be concerned if this inquiry came up with something like the ministry of best value, which they have in the UK. I hate to think how much it is costing them to run it when in fact it essentially reinvents a program that already exists in local government in Australia that has not had anything done with it; it is only about looking at continuous improvement, benchmarking and a whole range of other things like that.

There is a comparative analysis that runs across all 700 councils in Australia today but nothing is actually done with it. The state government produces its report in New South Wales and it comes out about 18 months after it needs to—that is the lag time. We submit all the information electronically and they could do it within three months, but it comes out about 18 months later. The only thing the state government does is look for some bad figures on the processing times for BAs and DAs and bang us around the head with it, instead of doing something positive with it in terms of looking at creating benchmarks and best value practices within councils. That can be done nationally—that set of analysis is collected on a national basis. It was agreed—and that is why it has not changed terribly much. There is another issue—if you wanted to look at doing something in terms of best value you would be looking at that comparative analysis and saying, ‘What needs to change in that analysis to make it more meaningful and worthwhile?’

With the National Office of Local Government you already have a web site that sets up a whole range of best practice examples. Some people from the national office came out to our ROC a couple of months ago and went through all those sorts of issues with us. So there are some mechanisms and events already in place that can be built on without reinventing the wheel and doing something new. A few of us here have been in local government for a heck of a long time, and I have seen the wheel reinvented so many times that it is not funny. It is really about talking to some practical, pragmatic practitioners. Unfortunately, they are not necessarily the people who sit on the associations. I think that has to be said.

**CHAIR**—That is fine. It is better to get it out.

**Ms Holloway**—I would like to make a comment about capacity building, since we have now gone off regions.

**CHAIR**—We have not necessarily gone off regions, but go on.

**Ms Holloway**—There is an option in the questionnaire about using a top slice of FAGs to fund a national capacity building agency along the lines of the UK’s Improvement and Development Agency. I do not have a problem with the whole concept of having development and improvement, and even of requiring accountability from local government for delivery,

having regard to the funds that they receive. I think that, with the structure of government in Australia, it is very difficult to see how a UK model could operate here. If the federal government set up an improvement and development agency its ability to impact local government would really be handicapped, because there is the state structure in between. The state government has a greater capacity to influence and control—which it does—local government than the federal government does. With the structure of government that we have in Australia I do not see how setting up such an agency could work. It would only work if there was total collaboration among the state governments to have a system in place across Australia to—

**CHAIR**—Your point is taken but, if we are going to have some agreements between the Commonwealth, state and local governments, is that an issue that ought to be on the table?

**Ms Holloway**—I think it would have to be—through a tri-level agreement and process.

**CHAIR**—If that were the case, is it worth pursuing?

**Ms Holloway**—Yes, if the three levels of government are involved, but not if it is just federal and local, because that would be leaving out the key area.

**Ms BURKE**—You are creatures of the states.

**Ms Holloway**—That is exactly right.

**Ms BURKE**—The act is a state act that gives you being, so you are exactly right.

**Ms Holloway**—It becomes an empty exercise if the states are left out.

**CHAIR**—Is there support for it on that condition?

**Ms Gibbs**—Another qualification is that I am sure there would be some widespread concern about using the top slice of FAGs funding.

**Mr Haynes**—If you could somehow use the funds that are for the Commonwealth Grants Commission and the state grants commissions, perhaps that is an alternative opportunity provided that we know what the future model is going to be. If it does not rely on the states having a role then maybe there is some opportunity.

**Mr McBride**—You could just restore the LGIP money, which was separate to FAGs, to fund the agency.

**Mr Haynes**—In terms of supporting capacity building, I think there is also a role for the ROCs in both providing examples of how regional population can work in its own right and in bringing together groupings of councils from different parts of the country and comparing how they approach issues.

**CHAIR**—If you were to anticipate that it does give some advantages, is it necessarily a cost? You are saying that it should come off FAGs but, if you are getting benefits that are at least equal or are greater, is it a bad investment?

**Ms Holloway**—No, it is not a bad investment, but there are different ways of funding it through other ways of achieving efficiency rather than taking a slice off FAGs. If the grants commission process is rationalised then that could fund the capacity building agency.

**Mr Smith**—My concern would be that it creates another whole layer of administration to manage the process—

**Ms Holloway**—That is right. That is why it has to replace the existing bodies.

**Mr Smith**—That is exactly right. If you do not use it to replace an existing body and to utilise data and information that is already there then, no, the investment is not worth it. If you look at why they created the ministry of best value, it is a completely different scenario to the one we are talking about here. They introduced a whole new layer of local government called counties. They wanted a way of making the counties efficient and a way of determining how much money they were going to get. The reasoning behind that initiative was completely different from the reasoning we are looking at here. We are coming at it from a different angle and unless it is going to be cost neutral I am not too sure that it is worth investing additional funds in it. I think there are a lot of mechanisms already there.

**Ms Gibbs**—If it is based on the UK model there is a danger in simply looking at what worked effectively in the UK and transplanting it here.

**Mr Smith**—It has not worked yet. It has only been in place for about two years.

**Ms Gibbs**—But even the funding arrangements seem to have been duplicated. I understand that it is funded by a top slice of the FAGs equivalent in the UK, but then the FAGs equivalent is a lot bigger than what we are talking about here.

**Mr Jones**—And they have a different structure of government.

**CHAIR**—Their responsibilities are quite extensive, like schools and so on.

**Mr Smith**—Schools, police and a whole range of other things.

**Mr McBride**—Another problem with taking a top part of FAGs is that the cost is going to be more heavily borne by those small to medium councils that already have the largest FAGs dependency. Those on the minimum FAGs will be paying relatively less. So there is a bit of an equity issue, given the way FAGs are distributed, in just taking a top cut of the FAGs.

**CHAIR**—I think that we are getting a bit of a message here. Getting back to the regional cooperation, which is a point that we would like to follow up a little bit more, and how it might lead to some efficiencies: do you see the efficiencies? There have been a couple of comments, informally or otherwise, about cases for improved efficiency. Looking at the South Australian

case, which I brought up earlier, savings were around three per cent to five per cent through amalgamations. What role do you see regional cooperation playing in how we best pursue it?

**Ms Gibbs**—I would like to give a very practical example that is sitting right before us today. The reason so many ROC representatives are here is because they are able to coordinate the input of their local members into a regional submission. Looking at the committee's web site, in the 11 councils my organisation represents I think there are only two others apart from the ROC that made submissions and they essentially endorsed the regional submission. So there are some very real cost savings there. It saved somebody sitting down and having to read through the discussion paper and consult with their own staff. We were able to do that quite effectively at the regional level. Certainly the feedback that I get from the member councils is that you get a better response in that case. You get a much more considered, more thoroughly researched and more strategic document. That is just one example of where councils can collaborate.

Likewise, we did a very similar thing with the AusLink submission. We were able to engage experts to advise on what the impacts would be for one group of councils rather than having quasi experts within local councils sitting around wondering how it was going to impact on them. That is just one very practical example.

**Ms BURKE**—Playing devil's advocate, is it that the 11 councils are too small to actually exist?

**Mr Gooding**—In the case of WSROC, we have an average size of over 100,000.

**Ms Gibbs**—The 11 councils that are in Southern Sydney ROC represent about a million people. We are not small by any means.

**Mr Jones**—We represent about 750,000 people, so there are some reasonably large councils within Northern Sydney ROC as well. Picking up on what Melissa said, it is quite a dynamic thing that we are starting to create through the capacity building of having joint submissions. We have worked that way on *Plan first*, we have gone through it for this process, we have done it with AusLink as well and we will continue to do it, I suspect, because it works. It does bring the benefits that Melissa talked about.

**Ms Gibbs**—It is also about having access to a wider pool of staff and councillor talent. A lot of the members of Southern Sydney ROC employ specialist staff if they have particular needs. Some councils have environmental science units, which are quite innovative and not at all common in local government. Access to those specialists is available to all of the members. Others may employ contaminated land experts, for example, and that pool of talent is available to all of the members.

**Ms BURKE**—Other people do not see that this is yet another level of bureaucracy, an unelected level of bureaucracy? We have had comments from other states as well.

**Ms Gibbs**—It is very clear that the ROCs do not represent the local community; they represent their councils. That is the clear distinction. I think a ROC would disintegrate if it started to consult directly with the community, because it is not representative of the community. It is representative of its constituent councils.

**Mr Gooding**—That is not to say that ROCs will not take on issues of concern to the region which are expressed to the member councils. One of the interesting things about ROCS is that, although they all address the same broad set of issues and have a high level of cooperation, they are all quite distinctive in terms of the particular issues and activities that they undertake. Even if they have ostensibly similar structures, there is a range of different examples of practice between the ROCs which can be applied in other areas. With regard to the point about another layer of bureaucracy, most of the ROCs are very small in terms of staff members. WSROC is probably one of the larger ROCs, and we have about four or five core staff and a number of additional staff who are funded by projects. The other ROCs around the table here are even smaller.

**Mr Jones**—Probably about half of the ROCs in New South Wales have no staff. They are a post-office box. They cannot be compared as an automatic thing. You have to look at why each one was formed and what it does.

**Mr Smith**—We have tended to try to identify both intraregional and interregional issues. *Plan first* is probably a good one to tap into. That is where we really started all this. Again, that was an attempt to look at long-term planning issues that the state has put in place. The three ROCs essentially had different points of view about how that could work, but there were a lot of commonalities within that whole framework. So the best way to do that was to say, 'Let's find the bits that are common. That's fine; we can tick off on those. Now, which are the bits that aren't?' It is not all about being negative. It is about trying to put some positive spins onto all these things and make better use of resources. Rather than 39 councils all having to go out there and employ 39 town planning consultants to talk about what was and was not good about planning issues, we used the combined resources of all of those things. I think that is a terrific example of where regional cooperation works.

**Mr Gooding**—Another basic issue, if the Commonwealth does in fact want to engage with local government more directly, is that there are 700 councils across Australia. How is it going to do that? Realistically, the only way to make it work is to mediate it in some way through some sort of regional structure. I think the problem you have, which you have identified in the discussion paper, is in fact where there are not any of those regional structures or where they are very weak. That is an issue that you would obviously have to address. But we can have a role in providing that sort of interface between both Commonwealth and state governments and local government.

**CHAIR**—Are there any other comments on that issue?

**Mr Haynes**—Whilst regional organisations have produced great benefits, I am not sure that they have been used enough over time. Anna made a comment about whether there are too many councils. Certainly the councils in New South Wales, particularly in Sydney, are probably larger even than the combined ones in Victoria, as a result of the amalgamation process. If you were asked the question you would say, 'Yes, that has been a perennial issue that has never really been debated.'

Coming back to regional organisations, I think they can go further. For example, some years ago the state government established regional waste boards, which failed. Local government and those members of the regional boards could not come to terms with what their roles were.

There probably was a great opportunity there, but local government failed to take up that opportunity. That is perhaps why there needs to be some leadership and direction in the next phase of structural reform, or we will not get to the next phase.

**Mr Jones**—The capacity of ROCs is limited only by the imagination of their boards, the work of the staff and how much money they have got. We do an enormous range of things at the behest of the people who set up the organisation. Melissa gave a very good example, but it is only one example. If you look at things like group purchasing, which is of huge benefit to councils, that has not been fully explored yet. It is a slow process to move down because there is a lot of work in that. There are lots of opportunities that we still have to come to.

**Mr Smith**—And there are legislative restrictions on some of those things as well. Any reform process really needs to look at the legislative restrictions that stop us from doing what we want to do.

**Mr Jones**—Yes. We have no status other than that which our members give us. We have no right to exist, other than the fact that they want us. We have to do what is required.

**Mr Gooding**—I think your point about leadership is important, and I believe this is where the Commonwealth and state governments can play a role. They can start by recognising and respecting the boundaries of the ROCs, as previously suggested. I also think that, in having greater dialogue with ROCs on a range of these issues and involving them in some of these processes, there is still a tendency by both levels of government to arbitrarily call together groups of councils to talk about issues. Obviously they have the right to do that, but it would be much more effective if they used the ROCs as a mechanism to do it. That would reinforce the role of the ROCs, and such reinforcement would encourage their development in those areas where they need it.

**CHAIR**—Are there any other issues that people would like to raise?

**Mr McMahon**—A particular chestnut for most of us is the issue of constitutional recognition of local government. It was picked up by most people in their submissions but, fundamentally—putting aside that there is a history about whether constitutional changes occur with ease on the basis of the political frameworks that are set up—from our point of view, it is the question of being able to be a permanent member of any committee or any three-level government forum, as against just being a visitor, being a person invited or being part of a framework where someone sets up a particular treaty between local government and the federal government. To me that really does underpin the particular inquiry being held—that is, if it is about local government and the federal government having better partnerships, that needs to be struck by way of other constitutional recognition more than by way of a general level of agreement being reached between local government and federal government. That level of government can in fact be undone by virtue of another government coming in, and that new government can abolish or amend that particular government. But if it were set up constitutionally, you would be there permanently and be recognised for what you do.

I think we do a tremendous job for our constituents, and I think that would be understood by all levels of government. The problem we have is that we are a creature of the state government, and on that basis it would not matter what happens in this inquiry. Unless it is done in such a

way that there is a direct channel of funding to local government, or some other form of mechanism to bring about a broader change to local government, the outcome of this inquiry will have to be filtered through to our state governments, and they will consider whether that is an appropriate mechanism by which local governments should operate in the future.

Presently, with the winds of change that have been suggested by our state government recently in the press and on local television, whether or not the changes afoot—by virtue of some form of administrative change—within our local areas are governed by state government regulation or through voluntary arrangements, we are uncertain about where we are heading. Generally, the principle of this inquiry at least allows us to bring forward and voice our views, which is great. The minister should be congratulated on bringing about this particular opportunity for us—I think it has been well used by local government throughout Australia.

**CHAIR**—As there is nothing further, I say a big thank you to everyone. This has been a very productive morning. We certainly appreciate the fact that you have come along today and have been willing to give us your views and the benefit of your experience. We also appreciate the submissions you have made. They have been quite comprehensive and have given us a lot of assistance in the inquiry. Thank you, everyone.

**Proceedings suspended from 12.27 p.m. to 2.37 p.m.**

**FARISH, Associate Professor Stephen James (Private capacity)**

**CHAIR**—Welcome. I would like to remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings in the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Do you have any comments to make about the capacity in which you appear today?

**Prof. Farish**—I am appearing in an independent capacity. I am simply representing the technology and methodology of socioeconomic modelling for the purpose of the committee's consideration.

**CHAIR**—Would you now like to proceed with your presentation?

**Prof. Farish**—I will begin by saying that I am perhaps a little unfamiliar with some of the economic aspects of funding. I am a statistician who models socioeconomic variables—as such, they are widely used for funding purposes, but there is a clear difference between the way in which they are measured and the way in which they are used.

I would like to briefly go through a history of the socioeconomic modelling of data in Australia just so that you have a context in which to view some of my later comments. In 1983 Ken Ross identified that if you measure socioeconomic data at the collector district level you can predict the achievement of students in schools very well. This work led to some later developments where we simulated the possibility of funding schools on the basis of socioeconomic modelling. This involved the education departments of Victoria and Queensland. A decision was made not to proceed down this track—for a variety of semi-political reasons, I guess, but also for some methodological reasons related to the era in which it occurred. We have come a long way since then.

In 1988 I and others gave a more detailed description of this relationship between SES and educational attainment. One of the features that transpired from this is that in measuring the socioeconomic status of schools it became apparent that when presented with a list of schools that were ranked socioeconomically people who knew subsets of those schools would agree that they were ranked correctly, but no one person could agree that the total list was correct. If you have a subset being ranked correctly then clearly the whole thing must be correct. So the procedure gained quite a deal of validity in the eyes of the educational community in Australia. It also gained additional validity when the ABS, following the example that we set and the methodology that we put forward—and, indeed, the very variables that we chose—used the same methodology to produce the socioeconomic indexes for areas, which is now commonly known as SEIFA and which has been produced by the ABS for the 1986 census, the 1991 census and the 1996 census, and they are currently revising it for the 2001 census.

In the latter part of the last century, the Commonwealth decided it would look at using a socioeconomic modelling process for the funding of non-government schools' recurrent funding in Australia. A simulation project was mounted, at the end of which it was agreed by the non-government schools community that this methodology best represented the socioeconomic

status of their schools. Since that time, this was put into legislation, and currently in Australia all non-government schools are, in one form or another, funded through this methodology. I should point out here that the same variables have been appearing from the census data right throughout this process. Recently, Ken Ross wrote a review of funding mechanisms around the world for schools and, in the same process, it was identified that many of the same variables appear, which is to be expected.

The present environment is important, because there is at present probably \$15 billion to \$20 billion worth of funds being spent in Australia annually on various socioeconomic models—not in producing those models but on the basis of those models. They are widely used, and I will put forward the proposition that they sometimes can be misused. The uses for which they are currently used include: acute health in Victoria, where the Department of Human Services allocates funding for hospitals in the state with a moderating factor based on SES; and aged care provision and planning. At least one state in Australia, I think—perhaps two—uses an indicator I constructed based on ABS data which incorporates a mixture of socioeconomic status in terms of wealth and income but also a measure of incapacity based on something such as, for example, the age of a person minus 65, squared. As people get beyond 65, they require more and more resources. The models are also used in New South Wales for adult literacy, they have been used in some states for library services, and I have developed isolation indicators for South Australia. There are many other examples I could give you.

There are some issues I would like to draw to your attention. First of all, these indicators have been primarily based on the relationship with student achievement, and that may, in fact, be an inadequate use of all of the potential available within the ABS data. For example, the funding of non-government schools using indicators I produced is appropriate in the context that the variables measure capacity to pay, but they are also associated with educational outcomes—and we are funding schools. On the other hand, the SEIFA index is used in a variety of contexts around Australia in environments that are not related to education, and yet the variables within the SEIFA index are related to education. That raises a question about how appropriate that might really be. However, I should point out, at the same time most variables associated with education are associated with most other outcomes of a social or economic nature. For example, your income is related to your health, your income is related to your literacy, your income is related to your educational attainment. These things are not independent, so the level to which inappropriate use may be occurring is limited by that factor.

In addition, you can develop other indicators for age, English ability, isolation, Aboriginality and so forth. In so doing, it is important to make sure that the indicator you produce is appropriate to the context. To give an example of that, if you simply want to measure socioeconomic disadvantage, and you get a group of states together, one thing that happens is that Victorians will probably perceive that socioeconomic disadvantage means having recently arrived in Australia, not speaking much English and living in an inner suburb; a West Australian or a Northern Territorian would probably consider it means having been here for 20,000 years, living as far as possible from the centre of town. What we each consider to be socioeconomic advantage or disadvantage can be different, depending on the context. So context is also important.

The ABS data is also limited but very good. One of the key issues in this is that some variables which at some time in the past may have been considered disadvantages have in fact

changed to be advantages. I will give a very simple example. As I was coming here in the taxi from the city, we went across a bridge and saw a large group of flats. The taxi driver said, 'They weren't there a few years ago.' Twenty years ago, living in an inner suburb meant that you lived in a crowded place and you were poor. Now, living in an inner suburb means that you live in a crowded place and you are rich. So being in a crowded place, as such, is not necessarily the disadvantage that it used to be. In the same way, ethnicity is coupled with language. Having arrived recently and not being able to speak English is a disadvantage, but we know, particularly in an educational context, that having two languages, one of which is English and one of which is a language from your own country, is actually an advantage. So, again, there are issues around the way in which disadvantages and advantages are seen.

It is also important that you take care to ensure that the social and funding aspects are indeed related to the statistical aspects. Too often SIEFA, for example, is just applied as a general measure of socioeconomic status without contemplating which of the five indicators within SIEFA are most appropriate, whether subindicators are more useful and whether the social and funding contexts in which they are being applied are appropriate to that particular index. It is very important to realise, even though several environments and situations have led people to think otherwise, that there is no a priori link between any particular SES indicator level and a particular funding level. My methodologies are able to measure socioeconomic status, but the next step, which is to convert that into any form of a funding model, is ultimately subjective. One has to put dollar terms next to individual scores, and the statistical components do not do that. They measure SES very well, but ultimately somebody has to make a judgment about what SES level goes with what dollar amount.

There are lots of advantages. The census data is reliably collected and readily available. As a nation, we spend \$200 million or thereabouts collecting it, so it makes some sense to make use of the quality of the data and its availability. It is very good when it is applied to areas that can be identified geographically, because that is how it is collected. It is collected right down to collection district level. If you went to the shop to buy your lunch or went down to the end of the street, you probably walked through two collection districts. They are very small. It can be aggregated up to postcodes, local government areas, Commonwealth electoral divisions, states and so forth. So if you want to fund something that is readily identifiable from a geographic context, methodologies based on the ABS data are in fact a very good prospect.

The other feature that is a major advantage is that, by and large, the population's socioeconomic status within Australia is relatively stable, particularly at the macro level. When I say 'relatively stable', I mean that Double Bay is not currently a slum, I doubt that it was slum five years ago and I doubt that it was a slum 10 years ago. Compare the socioeconomic status of Double Bay to Ryde, perhaps—or has Ryde improved lately?

The socioeconomic status of many areas remains, relative to other areas, fairly much in the same relationship, so you do not have enormous changes over very short periods of time. That is useful within the intercensus period. You can also supplement this data. I do not want to present this as the answer to anybody's problem. It is an excellent tool in the right environment and when used in the right way, but there is also other data that can be gathered at various geographic levels and merged with the census data. A very simple example of this is that you can fund LGAs on the basis of the income of the population, but the census data contains nothing about the rainfall in the LGA. You would need to collect that from the Bureau of

Meteorology, and you could do that for geographic areas and come up with an index which says where you might fund people who are already at their poorest and most hit by the drought. So there are ways in which this data can be combined with other data that is available.

Sometimes these other indicators are themselves able to be derived from the census or from other data sources. What I mean by that is that the ABS has other sources of data than just the national census of population and housing. They do surveys, on a routine basis, of the consumer price index, for example. That is data that is collected and put together in a certain way—there is a whole variety of others—so you can overlay different groups of data to come up with a more composite index.

I have some concerns. My first concern is the long-term reliance on educationally derived variables in the first place, such as SEIFA or the ones I have produced for education systems, being used in other contexts, but that is not particularly hard to avoid. In terms of the overuse of similar indicators and similar funding contexts, I have on occasions been asked whether I approve of a particular indicator being used by a government body and have had to say to them: 'It would be good, except that you also use that indicator to fund another program. By using exactly the same indicator in two environments, you are just going to hit the same places every time. You're going to be double-dipping in one location, and the ones who missed out will still be the ones who missed out. If the indicators are different, the programs should be different. If the indicators are the same, the programs should be the same.'

Then there is overuse of similar indicators in different funding contexts. Sometimes people would use an indicator to fund hospitals and somewhere else, two buildings down the road in Melbourne, there will be somebody funding schools on the basis of a very similar indicator. So the same suburbs and the same areas are again being targeted, even though the funding contexts are themselves somewhat different. As I identified earlier, the method for linking the indicator to the funding needs to be considered has to be seen as a separate issue.

The other concerns are a bit more statistical. One is that some variables do change quickly in the intercensus period, the most obvious one being that if a factory closes down in a very large city like Newcastle—if BHP pulls out of Newcastle, or if BHP ceases to operate mining in Broken Hill, which is in the news at the moment—that will not be picked up until the next census. It can be exacerbated if this variability is differential across geographic regions. What I mean by that is that, if unemployment rises nationally, it will generally rise across the board. As such, that is not an issue for ABS data, but it is an issue if unemployment rises substantially in New South Wales and drops in Victoria and you are using an indicator that is fixed in time. Finally, not all the ABS data is available in what is called the correct cross-classified format. However, the ABS has more data available if you want it than they normally release at the public level.

Sometimes geographic aggregation can cause loss of discrimination. An example of this is that if you ask two schools the socioeconomic status of the students and they draw from the same postcode—particularly in, say, a modest sized rural town—it can be the case that all the students come from the same postcode at both schools but one school is in fact socioeconomically better off than the other. If the measurement of socioeconomic status was done at the collection district level, discrimination would be brought out. At the postcode level, it would be lost.

In particular, it is important that, if the target group cannot be defined geographically, you may have to spend a lot of money to geolocate them. The funding of non-government schools—\$22 billion in the current quadrennium—is dependent on collecting approximately 250,000 student addresses at the school level and then geocoding those to the collection district of the student at the school level in order to get a school level indicator. So it is not based on postcodes and there is, as such, a substantial cost in collecting that, although that cost is minuscule in comparison to the magnitude of the program being funded.

Politically it can sometimes seem wise to put everything in the soup—single parents, migrants, Indigenous Australians, people who do not have cars—but, at the end of the day, if you are funding a particular program it is much better to keep a narrow focus and to focus only on those factors which are important; otherwise, your indicator becomes impractically broad. Of all of the concerns I have put forward, only one is about the SES methodology. The rest are really about its application. Its application is really where, if there is a problem, it tends to have a problem, because as a measurement methodology it is very good.

In summary, I would simply put forward the proposition that, if you use the ABS data wisely, you can obtain some excellent indicators for use in a variety of funding environments, but you need to take care to make sure the factors used are appropriate, that the methodology of application and the link to funding are well structured and that you can combine with other data that is not from the SES to provide a better funding model. A very good example of that is this morning I had a conversation with some people from the Board of Adult and Community Education here in New South Wales. They are looking at combining SES data with data from their providers—that is, the adult and community education providers. So you can combine data, in the context in which I believe you are working, on the socioeconomic status of the local government area but also financial data from the councils themselves. They could be adequately put together in a mixed model. That is really a summary of what I wanted to present. Are there questions about the way the model may be applied or its application in other contexts?

**CHAIR**—Thank you very much for that. It is very helpful. On the very last point you made, you said ‘adequately’. How well could you define a model for the funding of local government that we could—

**Prof. Farish**—The first step in defining a model and determining its adequacy is usually a policy decision about what is to be funded. If you were determining that you would fund local government areas on nothing other than the capacity of their ratepayers to provide funds, it would be relatively simple to put forward a model that provided the socioeconomic capacity to pay of the resident population. It would become inadequate, for example, because we would have no figures on the socioeconomic status of the industries—the private sector. On the one hand you have the entire community’s rate base but on the other hand you do not have the rate base from non-community sources. In that context, you might be able to get that from the council. You might be able to derive a surrogate from the community’s SES, and I believe it would be relatively easy to do that. On the other hand, if you are concerned about funding the quality of their roads as a major issue, there is nothing about the quality of roads in the census data and I would not direct you to the census data, other than for the input end—the capacity of the people to pay for the roads but not the quality of the roads that require fixing. So it is very context driven and, without a policy about what the funding is for, it is hard to talk about how appropriate it can be. It could be very good or it could be poor.

**CHAIR**—I am just thinking that through. If you are saying that business does not get included, I suppose the significance of that depends on the area.

**Prof. Farish**—The population of census and housing is literally housing—people, residents. Businesses do not appear in the census and, in some ways, they can distort it. A collection district can have a lot of businesses but appear to have very few people and very little income. However, there are other sources for the income of businesses that could be derived to put into that process. So without a specific example it would be hard to say exactly how it would be applied, but that is probably a very simple one that could be achieved without much effort.

**Ms BURKE**—So thinking about the school funding for the SES, it was on parent's capacity to pay for education. Getting back to the individual's income level was the most determining factor, versus in a local government area, where services delivered to everybody regardless of whether it is a household or a business, you need to determine the income of the whole area. When you were coming today and you were doing the comparisons that you did on the basis of the current minimum grants and the councils, had you thought in your own mind about the sorts of actual issues you would need to model?

**Prof. Farish**—Yes, I had. There are a number of things, if I was going to tackle this. I always have fun doing this kind of thing. I would want to ask a lot of questions. I would be presuming that the data were available on the following things: that there would be available from every LGA a breakdown of the proportion of its rate income that came from private sources and from business sources—from households and businesses—not individually, but just the breakdown.

Given that, the next step would be to look at something like the socioeconomic status of the LGA as a whole. This often impacts on businesses, because a lot of businesses are small businesses that rely on people spending money and they do not spend money if they do not have it. It is really only the very big businesses, such as large factories that employ people, that can make a difference to the whole LGA. But then, if they employ people, they usually live in the LGA and that is reflected again in the household one. So I feel that that would be relatively straightforward.

You would have questions you could ask about the per capita income of the council versus the income that the people themselves have. Are they paying enough, so to speak? Are they paying too much? Do they need supplementation, because they are being charged a large amount of money for services they received but are having trouble affording, or are they actually getting a lot of services that they could afford more of? I think that would be a relatively simple one.

**Ms BURKE**—I could use the case of Victoria. Stonnington Council, for example, has Toorak and Prahran.

**Prof. Farish**—Yes, and it has the abyss of a housing commission block.

**Ms BURKE**—It has the abyss. It is a very attractive housing commission block right on Chapel Street. So you have the two absolute socioeconomic extremes right there in one LGA. How do you rectify those two things? You have the worst housing commission block versus the mansions in Toorak.

**Prof. Farish**—There is actually a mechanism for dealing with this which is not immediately obvious to people. In fact, Ken Ross, in his first book, identified it with school funding. When you put money into a school because some of the kids in that school are doing poorly, you are funding the whole school. But there is only a subgroup who really should be receiving the funding. That is the spread within an LGA or within a school of socioeconomic status. As a statistician I find averages extremely uninformative. In fact, if you take the right part of Stonnington or a subset of Stonnington, you can come up with a very average socioeconomic status. But that can be resolved. If your funding program is designed to pick up people who are socioeconomically disadvantaged, you can actually identify, using the ABS data, that, within the LGA of Stonnington, there are pits of poverty and heights of wealth that do not exist in other suburbs like Blackburn, perhaps, which is more average across everybody. Therefore, you can structure a funding program which might, for example, say, ‘We will give money only to the bottom 20 per cent, not of councils, but within a council. We identify the bottom 20 per cent of all collection districts in Australia, we attribute a dollar amount to those and then we aggregate them at the council level.’ Some councils, like Blackburn, may in fact get nothing, whereas Stonnington might get money. So you can do this in a variety of ways.

**Ms BURKE**—The current horizontal equalisation fiscal model is based on the ability of council to deliver services as opposed to council’s capacity to pay for services. So, if you then compare, say, Stonnington with one of your councils—

**CHAIR**—Glenelg?

**Ms BURKE**—Yes, Glenelg is in rural Victoria, in Portland—put Portland into your mind. You are now giving two very different groups money for two very different baskets of services. You could also throw into the mix, say, an Aboriginal community in the Northern Territory. Can one funding model that goes Australia wide deliver an equitable system across the country, given those sorts of variances—Melbourne or country Victoria et cetera? Can it do it or is it too diverse?

**Prof. Farish**—No, it is not too diverse and it can be done, but it can lead to a complex model which incorporates multiple features, so that everybody is covered. One of the things I am always confused about with horizontal fiscal equalisation—

**Ms BURKE**—Don’t ask me to explain it!

**Prof. Farish**—Yes. One of the things I am always confused about with that is the capacity of councils to provide services. I find that the terminology makes sense but trying to understand it fully gives me quite a deal of thought. If I have a council that provides a service which we will call X to a thousand people but 1,200 need it, then that council may not have a capacity to provide the service, whereas another council that provides it to 50 people and 50 people need it does have the capacity. So the capacity is a function not just of output from the council but also of need at the recipient end, so I was wondering exactly what was meant by horizontal fiscal equalisation. Is it the capacity to meet the need or just the capacity to provide a uniform level of service to everybody? That is my question.

**Ms BURKE**—Don't look at us. One of the basic questions I still want to go back to people with is: what is meant by this and how is it applied? Nobody has answered that for us. We make the laws; we do not deliver them!

**Prof. Farish**—Perhaps I can give you a concrete example. I have just finished a small project looking at the capacity to provide aged care services in South Australia. You can actually measure the need at an LGA level based on a model using, as I said, people over 65 and the amount by which their age exceeds 65 squared to get a measure of increasing dependency as they get older. You can then ask: what is the number of beds in an LGA that would go with that need? So you have a matching process of the capacity to provide to a certain level with the requirements of the population. So you might have sufficient beds, even though the number is small, or you may have insufficient beds, even though the number is large. To me it is the differential that is important, and that can be done usually by having data from both ends, from the receiving end and the providing end.

**CHAIR**—In terms of the work that you have done—as you say, you have given it some thought—how would your outcomes differ from the current financial grants system, the Grants Commission system?

**Prof. Farish**—Do I understand your question to be what trends would I observe if a socioeconomic model were applied?

**CHAIR**—Yes.

**Prof. Farish**—In general the following patterns apply to socioeconomic models. They tend to favour rural areas. That is one of the issues. Part of the reason for that is that rural areas tend not to have the upper part of the spectrum of socioeconomic status. You will not find a lot of neurosurgeons in Glenelg but you will find a lot in Stonnington and you will find labourers in both, so you have one end of the spectrum but less of the higher end. That is the first pattern.

Secondly, measures of socioeconomic status based on aggregation are always more average if the aggregation is larger. What I mean by that is that a very small LGA with a small population is more likely to have an extreme score than a very large LGA with a large population. If your funding model is based on, say, the average SES, small LGAs will be more likely to be at the extremes. The logic behind that is simple: if all of Australia were one LGA, it would be average. If you divide it in two, they will be almost the same. Once they get smaller and smaller, they start to become further out in the wings of the distribution. So small LGAs are more extreme—both their positives and negatives—and rural areas tend to get greater funding. The thing about rural areas that it is important to realise is that there is no measure of rurality in the index. There is no 'plus three if rural' structure. It is simply that the actual factors, whatever you measure, tend to be less socioeconomically advantaged in rural areas.

**CHAIR**—The next question that follows from that, as you have made that comparison—and I know this is subjective—is whether it is a fairer system.

**Prof. Farish**—I have two answers to that. In terms of measuring socioeconomic status, I believe it is extremely good, and that is determined by the fact that with schools, for example, if you ask a group of people who know 20 schools out of 2½ thousand they will say that those 20

that they know are in the right order. So it is doing its job in terms of spreading out and discriminating between clusters—whether they be schools, local government areas or postcodes—on a socioeconomic spectrum. Whether that is fairer is partly a function of the next step: how do you convert that socioeconomic measure into dollars? There are many models you can apply. You can simply say, ‘We are not going to give any money to the top 10 per cent,’ or you could have a straight line or you could draw a curve.

It is a question of how you structure the relationship between the dollars and the socioeconomic status that will determine whether it is fair, and in many ways fair is a relative judgment. My argument would be that it would certainly measure the SES well; the next step would be up to the policy of how those dollars were applied. As I said, in the example of Prahran we could identify that Stonnington deserved some money—because there was a pocket of poverty in it—and that Blackburn perhaps did not warrant it, even if Stonnington’s average SES was higher than Blackburn’s. So you have that level of ability to structure the model according to what your policy is about.

**CHAIR**—Perhaps I could put it another way. Looking at the local government boundaries, and obviously they vary a lot, in the case that you have just given, wouldn’t that council, if it had sufficient resources because of its size, be able to make that adjustment at the local level rather than have a model that defines down to the last postcode or whatever?

**Prof. Farish**—Yes and no. I believe that policy would be made at the funding level—at your level. You may decide that Stonnington has enough resources from the upper end of its spectrum to supplement the lower end, or you may decide that your program is designed to provide a particular service that only people at that end of the spectrum take advantage of. There are two ways to handle that, and both of them are applicable, depending on your policy.

**Ms BURKE**—Given that the overall SES is based on census datasets—and you also identify as one of the problems the fact that it is over a five-year period and there can be massive changes—isn’t one of the other problems that the underlying data relies upon people’s declared taxable income versus real income and actually getting to the notion of households’ ability to spend money? That is one of the criticisms that we came up with—not your modelling, but the translation of that into non-government school funding. Did you see that as a problem?

**Prof. Farish**—It can be a problem. However, one of the features of the SES model which is not always apparent to people is that it is based not on individual information but on collection district information. As such, if you are funding individuals exclusively it is not appropriate. But if you are funding an aggregation which is considerably higher—such as a school that has individuals from many collection districts—a student in a wealthy collection district, whose parents are capable of hiding their income, brings to the school’s score the income of all the other parents in the same collection district, which is presumably quite high.

That is one of its advantages, but many people think of it as a disadvantage. They would say, ‘We know that we serve this person from a collection district, who is the poorest in the collection district, but the collection district’s socioeconomic status seems higher and therefore it is not working.’ My response to that is that it is, because, when a person tries to hide their income, all their neighbours give the game away. That worked out very well in the schools funding environment. I have a diagram in the report, which I did not bring with me, which

shows also that at the school level this argument does not hold true, because if you are pulling the poor kids out of CDs and putting them into particular schools, there will be more children from even poorer schools in that CD, which will pull the school's score down, even though it is not representative for any one individual.

This is a very important statistical concept—that something can be right even though none of the numbers in it are right. The simplest example I can give you of that is the make-up of the Senate. It roughly represents the way we vote, but individual senators are not 51 per cent Labor, 48 per cent Liberal and one per cent Independent. As a unit, they come as one colour or the other, but overall the average is right and it is reflective of what is way behind. So sometimes with an intermediary that is perceived to be inaccurate, the inaccuracies wash out.

**Ms BURKE**—I suppose that some of the other factors for the criticism about the SES for schools concern the things that were not thrown into the funding pile mix—the fundraising capacity and the fee level structure of the individual school. I take it from your answer to me before that the SES alone, based on current data, would not be a sufficient basis on which to fund local governments.

**Prof. Farish**—The decision as to how to fund schools is a policy decision, and it was based upon looking at SES rather than the resources at the school. Part of that policy was based on the notion that we were funding the recurrent processes of the school, not the static processes—not capital but recurrent. So we were looking at the capacity of parents to pay. In a local government context you can make the same argument, in which case an SES model would be pretty good. On the other hand, if you are asking what the resources are at the council at the LGA level that are sitting there ready to go, they are not in the ABS data. I am not suggesting that you either use it or abandon it, but there is nothing wrong with a hybrid model that looks at the capacity of people to pay, how much they pay—which is a different thing—and the capacity of the council to provide that.

One of the things I thought about yesterday regarding this issue is that, while rate revenue is based on property values, property values are not totally a measure of the capacity of that community to pay. In rural areas property values are astronomical but the incomes are low, and for many people in some suburbs the property value of their house has risen around them while their income has remained the same. So even though these people might be living in a house valued at \$600,000 or \$700,000, they are not as rich as the council perceives them to be—because that is a static asset, not an income.

**Ms BURKE**—That is one of the greatest problems we have every time they come out and do a rating review. Oakleigh is in my seat and they came out and did a review. The price of every house in Oakleigh has gone through the roof but it is still full of pensioners whose incomes have actually gone down, not up. So I think that is one of the biggest problems we need to address.

**Prof. Farish**—Does the council adjust the rates accordingly?

**Ms BURKE**—No.

**Prof. Farish**—Is the rate per dollar of capital improved value decreased to compensate?

**CHAIR**—It varies

**Ms BURKE**—Yes, it varies.

**Prof. Farish**—That would be a very good question to ask, from a methodological perspective. You could look, socioeconomically, at the ability of people to pay and you could look at the expected income on a capital improved value and make some kind of model that adjusted for that.

**Ms BURKE**—And you could get most of that done?

**Prof. Farish**—Yes.

**Ms BURKE**—The other thing, to follow your sort of thinking, is that the schools went down to census collection but I suppose we would have to look at the whole of local government, because you are funding for the whole of local government. Again, to return to my original point, is that reflective of the whole area? I suppose it gets back to more of a policy decision about what you fund and where, doesn't it?

**Prof. Farish**—No—methodologically, the schools funding issue was quite different in that schools do not have populations that have boundaries you can draw on a map. So the whole reason for going to the collection district level at the school was to quantify and characterise the socioeconomic status of its client group—its feeder population—which is not geographically defined. With LGAs that is clear. There are some variations to that—we know that people do not automatically stay inside their LGA boundary if they live right on the edge of it—but most of the services people get from their council are provided by the council to whom they pay rates. In that context this is much simpler. At the schools funding level, we had to geocode—if you know what that means. We had to actually identify the CD for 250,000 students. With local government areas you just work out the CD level and work up. You do not need to ask anybody where they live, because it is all there.

**Ms BURKE**—Just to raise something that is totally off that subject, I have always wondered what you did with overseas students.

**Prof. Farish**—For non-government schools funding, overseas students do not get AGSRC funding and, as such, they pay fees privately and are not counted in the per capita component. So they are just ignored and it works out okay. It is a problem if a student is an Australian citizen and their father is the Ambassador to Taiwan or something—the home address is a bit of a problem there!

**CHAIR**—One of the problems has always been the trade-off between simplicity and trying to get the balance right. The larger the number of variables in a model, the more complex it becomes. It is suggested that if you make it simpler—while it is easier to understand—it might be less fair. Is that your—

**Prof. Farish**—Correct. The very simplest model, which is simply income only, which is what the schools funding could have done, would have been somewhat unfair. Often the most highly paid jobs are not so secure. So people who work in business can have quite substantial incomes

but their income can vary a lot from year to year. Whereas people who are high school principals or public servants have effectively a income that is guaranteed but perhaps a bit lower. So one of the things that we did was incorporate education and occupation as well as income. That is still simple but it irons out a few of those unfairnesses that you are identifying. What we avoided was going down the track of putting in the single-parents and the left-handers and the whole crowd. If you think about the way in which any model works, if it is truly simple it is going to be slightly unfair. If it is very broad, it will be insensitive. It is a trade-off between those two. Somewhere in the middle there is an optimal position.

**CHAIR**—Could you design one for local government? You mentioned one of the shortcomings in the data you have from the census was the lack of business—

**Prof. Farish**—Yes, but I would imagine that, if you were able to, you could get a surrogate measure for the capacity of business to provide money to councils. I do not know enough about the rating of businesses to answer this clearly but, presumably, businesses are rated on property values—or are they also rated on some kind of turnover figure?

**CHAIR**—On property and capital improvements.

**Ms BURKE**—Not capital improvements, just property.

**Prof. Farish**—You can structure a model which measures several pieces—capacity to pay, property values, the income from businesses—and you can actually determine what the proportion of income from businesses is of the total council income and then you can make decisions about how you want to treat that. You cannot get everything, and it is not a perfect world. I would be the last person, as an advocate of an SES model, to say it is a panacea, but it is an extremely good tool. Its shortcomings can usually be numbered as fewer than many other models, and those shortcomings can sometimes be compensated for with bits of other models.

**Ms BURKE**—Given that councils do not all provide the same services—like a school provides an educational outcome—and there are state-by-state variations and community-by-community need, can those differences be factored in? In Victoria the majority of councils provide home and community services aged care packages and not many other states do. In Tasmania they do water and sewerage. Can those sorts of variations in the actual delivery of services, which can be radically different, be measured in?

**Prof. Farish**—The delivery of services can be, because you have the figures from the council. Presuming that all these services are being paid for by the population, you have also got the SES of the population. What overrides this is a policy decision about who and what you are funding. Are you going to fund the Tasmanians to provide sewerage? Are you going to fund Victorians to provide aged care services and home help? If you are going to do that, there are data sources readily available that will provide information about the cost of providing those services and the capacity of people to pay. Or you can ignore them because you say, ‘This is not what we’re on about.’ I think your question is: ‘Can we do it?’ The answer is yes. ‘Should we do it?’—I do not know.

**Ms BURKE**—I suppose that is for us to decide, isn’t it?

**Prof. Farish**—Yes. But if you do it, it becomes a more complex model. The simplicity that was being alluded to earlier diminishes, because you have to measure all these things for each council in order to then put them all together.

**Ms BURKE**—We would also have to make a policy decision about what local government is meant to do.

**Prof. Farish**—That is right.

**Ms BURKE**—That would probably be the harder decision.

**Prof. Farish**—That may be very hard. What you have just said is a very good example of that trade-off between simplicity and fairness. Is it fair to pay the Tasmanians to provide sewerage? If you do not, they will complain that it is not fair; if you do, the other states will complain: ‘We don’t provide that service; why should they get money?’ So simplicity and fairness are often counterpoised.

**Ms BURKE**—Is there anything you wanted covered that has not been asked?

**CHAIR**—I think it has been fairly helpful.

**Ms BURKE**—I think it has been confusing.

**CHAIR**—Someone has to make the decision at the end of the day. It is a question of whether you reckon we will have a fairer system if we take into account your qualifications on it.

**Prof. Farish**—Do you mean the reservations I have?

**CHAIR**—Yes.

**Prof. Farish**—If you were going to make use of an SES system, I would approve, but even then I would want to look over your shoulder and make sure you did not treat it as some kind of manna from heaven that is going to answer all the questions. It must be taken, along with many other different measures, only to the extent to which it is useful. I believe it is very useful.

**CHAIR**—Thank you very much for that.

**Prof. Farish**—Thank you.

**CHAIR**—And I thank everyone else for their participation today.

Resolved (on motion by **Ms Burke**, seconded by **Mr Griffin**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 3.26 p.m.**

