

Submission  
to  
Productivity Commission  
on

## **ASSESSING LOCAL GOVERNMENT REVENUE RAISING CAPACITY**

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## **Terms of Reference**

The Federal Government has asked the Productivity Commission to undertake a research study assessing local government revenue.

Specifically, the Commission has been asked to examine the capacity of local government to raise revenue including:

- the capacity of different types of councils (eg capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time;
- the impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government; and
- the impact of any State regulatory limits on the revenue raising capacity of councils.

Borrowing by local government authorities is not part of the research inquiry.

The Government has provided little by way of guidance to the Commission about what it is being asked to consider in this research study, but the focus is on the revenue side of the ledger of local government.

## **Introduction**

1. The Australian Services Union represents local government employees throughout Australia. The Union is party to a Federal and State Awards and Agreements covering local government employees throughout the country.
2. This submission is made on behalf of the Local Government Branches of the ASU. A full list of ASU Branches and locations can be accessed on the Union's national website: [www.asu asn.au](http://www.asu asn.au)
3. In all States, except South Australia and Queensland, the ASU covers both blue and white collar employees. In Queensland, SA and in the Northern Territory, the Union covers white collar employees in the sector. The Union has approximately members 60,000 Australia-wide employed in local government.
4. The Australian Services Union's members throughout Australia in the local government and related sectors work in every classification in the industry including as council road gangs, child care workers, road construction and maintenance employees, engineers, architects, draughtsmen, council ordinance inspectors, beach inspectors, senior managers, cattle yard sales managers, roads and measures weights inspectors on country roads, Council Rangers and in many other classifications.
5. The ASU is Australia's largest Local Government Union and well able to comment on behalf of not only Local Government employees, but also their communities in which they live as well as work. The ASU is a truly community based Union committed to Regional jobs growth, suburban city growth and improvements in safe and secure communities throughout Australia.
6. The ASU has Branches and offices in all Australian States and Territories and in regional centres across Australia and has one of the most decentralized union membership bases in Australia. Through its members, the Union is well informed about the needs of local councils, their employees and local communities in which they live and work.

7. The ASU has had extensive experience in the operation, structures and restructuring of local Government. The Union has taken a close interest and had a close involvement in the issues that led to the current inquiry, that is, the issue of cost shifting and the response of Governments to the issues highlighted by the Hawker inquiry.
8. The ASU made written submissions to the Hawker Committee and appeared before it to give verbal evidence in support. The Union supported many of the recommendations of the Hawker Committee.
9. It is fair to say that the Union has been disappointed in the response of Governments to the recommendations of the Hawker inquiry. The current research inquiry, for example, flows from the Federal Government's rejection of one of those recommendations. The slow response of the Federal Government in asking the Commission to undertake the present research will mean further delays in addressing serious issues in local government.
10. Over the years, the Union has worked closely with State and Local Governments to ensure that the operation of local government has been carried out in the most efficient and beneficial way and in the interests of the local communities served by local government.
11. Members of the ASU are at the frontline of Council work and of local government service delivery to rate-payers and other residents. Members continue to be frustrated, in many cases, with their inability to deliver the extent and quality of services required by local communities because of the inadequacy of funding available to local government to provide the services.
12. This difficulty arises not only from cost shifting but also from difficulties in developing appropriate revenue bases, frequently caused by short- or long-term rate caps or freezes introduced by State Governments for political purposes or to support State Government political agendas.
13. With limited access to its own taxation revenue, local government is frequently at the mercy of the political priorities of other tiers of government. The ASU and its members are concerned about the financial viability of some local government authorities and their capacity to deliver quality

services but have equally borne the brunt of rigid, inflexible policies of state governments to ‘reform’ local government by forcing Council amalgamations, compulsory out-sourcing of Council activities, shared services and other programs many of which seem designed only to reduce costs by cutting employee numbers rather than seeking to improve service delivery and function on the basis of a fair share of general taxation revenue.

14. This has occurred in nearly all States. Rate capping has affected the capacity of local government in NSW to provide the desired level of local government services for many years. The Victorian government forced both Council amalgamations and compulsory competitive tendering, leading to significant job losses in the sector. Job losses mean a decreased ability of local government to provide adequate services. In SA, council mergers were associated with a rates freeze which assumed greater expenditure savings than actually occurred as a result of the process.
15. The ASU brings this background and experience to the present submission.

## **Background to the present Inquiry**

16. The current research inquiry by the Commission flows from the on-going response of Governments to the Parliamentary Inquiry into various aspects of local government resource needs known informally as the Hawker Report or the “Cost Shifting” inquiry.
17. The ASU made written and verbal submissions to the Inquiry at the time and has followed the response of Governments – State and Federal – to the recommendations of the Committee. The current inquiry flows from the Federal Government’s response to Recommendation 17 in the Hawker Committee Report, which read:
  - 7.19 The Committee recommends that COAG host a Summit in 2005 on Inter-governmental Relations:
    - to report on the implementation of the Committee’s recommendations;
    - to review:
      - SPPs paid to States and Territories with a view to isolating funds for direct payment to local government;
      - the relevant anomalies of ANTS;
      - the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity; and successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;
    - to determine processes to develop:

- methods to resolve duplication and overlap of service provision;
  - a fully responsible financial role for local government free from policies that arbitrarily limit revenue raising capacity from their normal sources;
  - a direct financial relationship between the Commonwealth and local government;
  - a national methodology for local government bodies to evaluate their infrastructure needs and requirements; and
  - a set of principles to reduce cost shifting and unfunded mandates and to ensure that Commonwealth and State and Territory responsibilities administered by local government are adequately funded.
18. The Federal Government rejected the call for a Summit on Inter-Governmental relations and instead proposed the current Inquiry to address one aspect of this Recommendation, that is, the revenue raising capacity of councils. The ASU regrets the failure of the Government to adopt this Recommendation and the less than timely way in which the moved to ask the Commission to conduct this research. The final Report is not due until 2008, many years after the Recommendation was first made.
19. Nevertheless, the ASU believes that the present inquiry is worthwhile. Since the original recommendation was made, some other measures have been taken to examine this issue, including work done by the Australian Local Government Association and the SA Government which have helped add to our understanding of local government finances. However, the fundamental problems identified by the Hawker Report remain.
20. The current inquiry addresses only one aspect of the financial situation faced by councils, that is, their 'own source' revenue raising capacities. Other aspects, including financial support by State and Federal Governments, which continues to decline, remain to be addressed. However, as noted in the Commission's Discussion paper 'own source' revenue comprises the bulk of revenue available to local government.

21. The Discussion Paper notes: “The major revenue components for local governments across Australia in 2005-06 were:
- council rates (37.3 per cent of local government revenue)
  - sales of goods and services, which include fees and charges imposed on services (28.9 per cent)
  - other income, which includes developer contributions and fines (19.0 per cent)
  - interest income (2.7 per cent)”.
22. By contrast, grants and subsidies were:
- grants and subsidies from other tiers of government(12.1 per cent)
23. Excluded from the scope of the current research is ‘grants and subsidies’ as well as well as borrowings. The ASU believes that a comprehensive approach to local government financing is required if the difficulties being experienced by this sector are to be addressed in the long term.
24. Grant income is clearly more significant for local government in some jurisdictions than in others, but is significant in all jurisdictions and cannot be divorced from any overall consideration of local government finances. Grants and subsidies equalled nearly 30% of NT local government income in 2005-06 while in NSW the figure was 15%.
25. The ASU acknowledges that, as with any other organisation, the overall financial health of local government is governed by a combination of input and output factors, including:
- The revenue support base from all sources, including tied and untied grants

- External and arbitrary limitations imposed by State governments, eg rate caps and freezes
  - The extent, and changing characteristics of rateable property income in various geographical areas and changes over time in the rate base
  - The influence of the ‘market’ – that is the extent that councils are politically able to vary the level of rates relative to other similar councils or those in the immediate vicinity
  - Willingness of local communities to pay for services , particularly in the context of differing needs of rate payers and residents.
  - The level, standard and mix of services required or desired to be delivered by Councils [which in turn depends on the geographical and populations characteristics of the area served by local government.
  - Operational efficiencies and economies of scale that can be achieved, commensurate with the need to keep local government local and to appropriately respond to the needs of local communities.
  - Financial skills of council administrators.
26. The ASU believes that too often governments have attempted to force ‘one size fits all’ policies on local governments with widely varying characteristics and needs as well as revenue raising capabilities.
27. Too often, in the view of the ASU, reforms to local government have been attempted with the intention of achieving reductions in the number of employees delivering essential local government services through alleged economies of scale or ‘efficiencies’, the net result of which is the withdrawal from local communities of skilled workers responsive to local needs.
28. The ASU also believes that frequently the critical role that local government plays in local communities, especially regional and remote communities, is

overlooked. All reform proposals must consider the impact of changes on the sustainability of regional towns and regional employment. The local provision of community services by locally employed and based staff is important to the communities in a number of ways. Local access to services is important in the vast areas of regional Australia. Many communities depend on both local access to services as well as on the jobs themselves to sustain local communities.

29. Clearly, local councils must be financially sustainable to be able to continue to deliver local services and provide local jobs, but overall funding levels must also be structured to take into account the need to provide decentralised access to services and to support local communities. Unfortunately, regional councils frequently have less ability to raise revenue from 'own source' activities.
30. The Union accepts that the achievement of economies of scale can be important but strongly believes that any such savings should be used to enhance service delivery in other areas within the local government rather than by reducing numbers of staff available to deliver services.
31. It is now well established that local government has been under financial pressure as a result of 'cost shifting', that is the shifting of the cost of provision of services from other tiers of government to local government without additional funding. Local authorities are undertaking a wider range of activities with declining share of government revenue resources. This issue still needs to be addressed in a comprehensive way by ensuring local government access to an appropriate share of taxation revenue commensurate with the demand for the provision of services. This cannot be addressed by 'own source' revenue alone.
32. Local government simply does not have the capacity to function with fewer human and financial resources and the ASU will always reject proposals which seek to improve the financial viability of Councils by reducing the number of staff employed by local government.

33. Estimates vary about the impact on local services as a result of the combined impact on local government in Victoria of council amalgamations and CCT, but may have been in the order of 20,000 to 22,000 jobs lost during the restructuring period.<sup>1</sup> These reforms were ostensibly driven to improve the financial performance of Victorian councils.

## Trends in local government revenue

34. The Discussion paper examines the trends in local government revenue from the sources mentioned above. The table below, drawn from the Commission's Discussion paper, summarises the findings:

<b>Source of revenue</b>	<b>Growth in dollars - 1996-97- 2005-06 [BILLIONS]</b>	<b>% growth rate</b>	<b>Change in % share of total revenue</b>
Rates	\$5.4 - \$8.9	5.7	40.1 – 37.3
Sale of goods and services	\$4.4 - \$6.9	5.2	32.4 – 28.9
Other income	\$1.4 – \$4.5	14.0	10 - 19
Interest	\$0.41 - \$0.64	5.0	Stable around 3%
<b>TOTAL</b>	<b>\$11.5 - \$20.9</b>	<b>6.6</b>	<b>n.a.</b>

35. The Discussion paper poses the following questions:

- *What are the principal factors explaining the trends in revenue from councils' various sources?*
- *Why has 'other income' been growing at a faster rate than council rate revenues and sales of goods and services?*

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<sup>1</sup> Advice from Darrell Cochrane, former Branch Secretary, ASU Victorian Authorities and Services Branch.

- *Do these trends differ between States and Territories, and between urban, rural, remote, and indigenous local governments? If so, what are the primary factors explaining such differences?*
  - *Does the composition of council revenue (shares of each own-source revenue —rates, fees and charges, and ‘other’) differ between States and Territories, and between urban, rural and remote local governments? If so, what are the primary factors explaining such differences? Do these factors have implications potential revenue raising capacity across different types of councils?*
36. ASU Comments: It is clear from the information available in the Discussion paper alone that ‘other income’ is the fastest growing source of revenue for councils – growing at about 14% per annum in the period under consideration. Other significant sources of own source revenue have grown only between 5.0% and 5.7%. Other income now constitutes 19% of total revenue and in the relevant period has become greatly more significant to councils than grants and subsidies from other tiers of government.
37. The exact composition of ‘other income’ would appear likely to vary significantly from council to council since it includes contributions from developers. Councils where development is not rapid or in high property value areas are unlikely to be benefiting from this source of income to the same extent as other councils. This factor may be exacerbating the financial issues facing some Councils.
38. As well as growing strongly, ‘other income’ is becoming an important source of revenue in its own right. In 2005-06, ‘other income’ – at nearly 30% - was the single greatest source of revenue for councils in the NT, as the table below shows<sup>2</sup>.

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<sup>2</sup> ABS, Government Finance Statistics, 2005–06 Cat No. 5512.0, table 28.

	NSW	Vic.	Qld	SA(a)	WA	Tas.	NT	ACT	Total(b)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<hr/>									
GFS Revenue									
Taxation revenue	2 613	2 519	1 807	785	928	207	62	..	8 920
Current grants and subsidies	635	547	464	154	190	69	56	..	2 117
Sales of goods and services	2 447	943	2 597	217	478	258	60	..	7 000
Interest income	319	69	134	21	74	20	7	..	644
Other	1 124	779	1 656	128	564	81	76	..	4 407
Total	7 138	4 856	6 659	1 305	2 234	635	260	..	23 088

39. Given the growing significance of this type of revenue to Councils, the ASU recommends that the composition and distribution of this type of revenue across councils needs further analysis and study.
40. The Discussion paper further asks:
- *What are the principal factors that determine the magnitude of the various revenue raising bases available to local governments?*
  - *How and why might they differ between local governments within and between States and Territories (for example, by council type or location and functions required of them), and over time?*
  - *What are the key determinants of the capacity and willingness of resident households, organisations and businesses to pay for services provided by their local governments?*
  - *What scope is there for local governments to augment their revenues with fees and charges collected from non-residents?*
  - *How and why might the scope to do so differ between local governments?*
  - *Do local governments have policies, which in effect, limit their own-source revenue raising? If so, what are these policies and what might be factors holding back councils from increasing their own-source revenue? What might stand in the way of changing the policies to expand the ways, and extent to which local governments raise revenues?*

- *What strategies might be available to local governments to increase the capacity and willingness of local residents to pay for goods and services provided, and where applicable, non residents? Would any new strategies provide stable sources of revenue over time or would they be subject to variability over time?*
  - *Are there any untapped revenue sources that local governments could use to augment or change the mix of their revenue raising? Would any potential new revenue sources be stable or variable over time?*
41. **ASU Comments:** For Local Government to develop a long term rate base and improve its financial viability it is acknowledged that a mixed economy/rate base comprising of industrial, commercial and residential rates is of substantial importance. Accordingly, financial assistance to Local Government must include the ability and assistance to attract not only residential community growth, but commercial growth and industrial growth. By this it is noted that Local Government Services and indeed regional/local jobs growth are dependant upon the opportunity for commercial growth in shopping centres, retail, office type workers, professional establishments, along with the necessary industrial based infrastructure such as industrial zones and areas, warehousing or specific infrastructure projects. These create a long term financial resource for the local economy, through rates and other charges for services provided by Councils.
42. The issue of regional development and/or suburban city projects should for the purpose of Local Government Funding not only give consideration to the immediate effects being felt by the local community for job creation and similar, but also consideration of the likely income stream in the form of rates, additional revenue paid by infrastructure development projects and industrial developments that provides rateable increases to the local Council and therefore the Local Government community to be requested on future development opportunities within the local community, regional projects, town and city infrastructure and community services.
43. A flow on effect of their creation of industrial and/or infrastructure projects is also seen by the creation of additional employment opportunities in the local

community by way of housing development, hospitals and professional services, through to the retail sector all hinged upon development of Regional projects.

44. The role of Local Government in attracting industrial development and significant infrastructure projects must be a consideration not only to provide employment but also sound financial future for Local Government industries - this must be recognised by both Federal and State Governments irrespective of their flavour.

## **State and territory government regulatory constraints**

45. With regard to rate pegging: the Discussion paper asks:
  - *What are, or might be, the reasons for rate pegging?*
  - *To what extent does rate pegging limit the ability of local governments to raise council rate revenues?*
  - *Are local governments able to raise revenues from other sources to compensate for the potential revenue raising limits imposed by rate pegging? How, and with what consequences?*
46. The ASU notes that local government and some hundreds of councils throughout Australia are, or have been, faced with Rate Pegging or limitations of one sort or another by some State Governments.
47. Rate pegging as such has operated for many years in NSW. In the case of NSW, rate pegging clearly appears to have affected the ability of some Councils to acquire appropriate levels of rate income despite changing circumstances.
48. Rate pegging was seen historically as a means of an anti-inflationary "guidance" by the State Government and, in the Union's submission, is left over from the late 1970's and early 1980's. The practice is well out of date and should be abolished.

49. ASU however notes that the citizens throughout Australia in local communities, managed by Local Government, should not be subject to unilateral and unsubstantiated rate increases by Councils for short term political agendas or as the result of mismanagement.
50. Councils in NSW must annually apply for increases above a certain rate peg and depend on a decision by the appropriate Minister to see if their application is approved. While have been approved recently, not all have and this results in uncertainty and, where the application is rejected, a financial difficulty for Councils.
51. In response to the 2007 applications determined in July by the NSW Minister, the NSW Local Government and Shires Association said:

“Rate pegging in NSW hampers councils’ ability to set rates according to local needs, but special variations at least allow them to source some revenue for crucial local projects...

“It is disappointing for the councils that missed out– they apply for these rate increases to enable them to provide infrastructure for their communities.

“The Associations maintain that rate pegging and the special rate variations system isn’t working and is a totally unnecessary burden on councils.”<sup>3</sup>

52. However, it is noted that a degree of rate guidance can help Councils focus more clearly on their financial position and their management in line with community expectations and standards.
53. To this end, the ASU notes that a number of State Governments have developed independent regularity frameworks, which require Government agencies and authorities to justify increases in their charges.
54. An example of this is the Independent Pricing Advisory Regulation Tribunal in NSW where increases need to be justified to a independent Authority. Examples of such charges include in NSW (along with Victoria), increases

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<sup>3</sup> NSWLGSA Media Release , 3<sup>rd</sup> July 2007.

in electricity charges, water rates and public transport fares which are increased only after submissions are considered by the Independent Pricing Advisory Regulation Tribunals (or similar body).

55. Local Government rate increases could be considered in a similar manner.
56. At other times, councils have been forced to freeze or even reduce rates in anticipation of savings to be gained by council amalgamations or mergers. This has occurred in both Victoria [under the Kennett Government forced mergers and compulsory competitive tendering regimes] and in SA as a result of amalgamations. The SA Financial Sustainability report noted that “the freeze assumed greater savings than actually occurred” in practice.<sup>4</sup>

## **Factors influencing expenditure and revenue raising**

57. As noted above, the other factors influencing the financial performance of local government can include:
  - operational efficiency
  - market characteristics of services provided
  - the level and standards of services that it provides and the structure and level of charges (including rates and fees for services) used to recover the costs of services
  - the ability and willingness of ratepayers and users to pay for services, through increases in rates and fees and charges. An increase in charges might result in a less than proportional increase in revenue as ratepayers leave the council area or potential new residents are deterred or users reduce their consumption levels
  - financial and asset management skills
  - the amount of grants and subsidies it receives.
58. With regard to operational efficiency, the paper asks:

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<sup>4</sup> FRSB, Final Report: *Rising To The Challenge Towards Financially Sustainable Local Government,, Volume 1, page 15*

- *To what extent is there scope for local governments to reduce the unit costs of their operations? If so, how might they most effectively reduce their costs?*
  - *What effect would such cost reductions have upon their revenue raising requirements?*
  - *How and to what extent have structural reforms, such as boundary changes of local governments and service sharing arrangements, affected operational efficiency?*
59. **Shared services/joint ventures.** The ASU supports the delivery of local government services in the most efficient and effective way possible in the interests of local communities. As a union representing local government employees the ASU knows that services are best delivered by dedicated local government sector employees in an environment where skilled and compassionate service delivery is valued.
60. The ASU strongly believes that local government services should be delivered by the public sector in the interests of those in receipt of those services and those who provide them. Local Government has a long reputation for the delivery of high quality services to local communities and this is in large part as result of access to a stable pool of qualified, career oriented local government employees.
61. The ASU does not support the delivery of local services by the private sector; either by contracted out arrangements or by way of public-private partnerships however described. The private sector – operating on a ‘for profit’ basis – simply does not have the commitment to public service which has been demonstrated by the local government sector.
62. Accordingly, the ASU does not support shared resource joint enterprises or shared services by agreements where this involves the participation of parties who are not local government bodies.
63. Specifically, the ASU does not support shared resource arrangements which involve contracting out of local government functions or public-private

partnerships involving the private sector in local government service provision.

64. The ASU strongly believes that local service provision must be in the hands of democratically controlled local government bodies responsive to rate-payer interests. The ASU will only support shared service provision if carried out by local government bodies and in accordance with the policy positions that it has consistently put to Government.
65. The ASU believes that, depending on how they are structured, employment in and by shared service arrangements, especially those to be provided by joint enterprises, are extremely problematic for both local communities and local government sector employees.
66. There is uncertainty about the form and nature of these organisations which may lead employees and services out of the local government sector proper. The Union strongly believes that all such employment arrangements must be based on the premise that all employees providing local government services remain within the local government sector.
67. Contracting out of such services on a shared service model inevitably, as has been shown in Victoria and elsewhere, leads to a lowest common denominator approach which results in poor levels of service provision, reductions in pay and conditions for employees and the loss of skilled employees from a sector which is already under pressure from skill shortages and expertise in key areas.
68. Local communities want local services provided by skilled local government sector workers acting in their interests and not in the interest of private 'for profit' employers.
69. Employees of shared service providers must be and be considered as local government employees for all purposes, including long service leave and other benefits flowing from the Local Government Act [superannuation, etc.] This will facilitate the operation of these bodies if they are desired by local communities.

70. The ASU will therefore continue to oppose any provision of local services by private interests unresponsive to the needs of local communities and does not support the adoption or proposal for changes to local government which allow or require privatization of local services.
71. Local government has been the subject of regular re-structuring and, indeed, compulsory contracting out of services in other States and Territories. The ASU strongly believes that on the basis of this experience, local communities strongly value the provision of their services by local public sector employees and do not support private contractors entering this field at the expense of decent local jobs and services.
72. On the surface, it often appears that Local Government could offer improved efficiencies by the sharing of resources with neighbouring Councils within the similar same region.
73. This process has been considered by many Councils over the years and whilst there may be some seasonal opportunities and benefits the concept also raises serious questions about the protection of regional communities throughout Australia. Some of the glaring examples concern the utilisation of plant and equipment, such as road scrapers, draggers, bulldozers, tractors, tip trucks and semi-trailers, which some may think could be easily shared between neighbouring Councils when not in use for specific projects.
74. There are some fallacies with this consideration but there are also alternatives worthwhile considering. One particular example concerns the use of heavy equipment that may be used by Council for its normal roads program and may be idle during peak heat times over December, January, February, or other seasonal troughs dependent upon climatic locations.
75. One of the great faults with the use of outside contractors in Local Government is their inability to serve and save communities when they are being threatened. Regional and Country Cities along with some Metropolitan "Shire" Councils have additional responsibilities to protect the community against bushfires, flood control and other threats that face

towns. Restoration of Council's roads and property, river banks, levees and more are also required in the aftermath of a bushfire or flooding.

76. All of these examples show that a Council needs to be able to manage its own plant and equipment effectively for not only regular maintenance programs, bridge building and road construction, but also needs to be able to manage the bushfires, flood control and other requirements.
77. For instance a contractor or neighbouring Council could not afford to loan a piece of plant and equipment to a Council to be held in store just in case it was needed for flood litigation or bushfire control. However Local Government Authorities that own plant and equipment can program their maintenance, road place construction and similar, with the added benefit of availability of plant for emergency services and unexpected requirements. Often Local Government is the lender of resources for bushfires to State emergencies services and other community service organisations, it is not uncommon for the army, navy, or civil defence organisations to call upon Local Government for Assistance, not to mention the call from State Government and National Governments during time of emergency.
78. Currently Local Government does share equipment, by undertaking road development Project, or other infrastructure areas using heavy duty construction equipment and items of plant, by way of undertaking projects, often on a cost recovery basis for neighbouring Councils, that may not be able to undertake these projects had they been faced with substantial bills or expenses presented to them by outside contractors, that would not only charge exorbitant but often and usually do move their entire profits out of the community taking spin off jobs with them.
79. However, there are opportunities for Councils to share resources either in the development of specific pieces of equipment that need to be styled, designed or otherwise for specific geography and/or tasks, that may not be normally considered by the makers and designers of this equipment, that sometimes reside in the Northern hemisphere. This sharing of designer requirements, can often mean companies that were not intent on designing of new equipment may see a Market where more than one or two Councils demand a product.

80. The sharing of resources in Council areas so as libraries and community services has been well known for sometime, examples of this include inter-library loan services, regional libraries where populations are so manageable, regional art gallery exchanges of exhibits and similar, the pooling of resources, again with regional art galleries combining together to assemble an exhibition that could be moved from one regional art gallery to another, State Governments and National Governments can have a role in providing the funding for projects where two or more Councils would come together for cultural purposes such as this. This process also allows Councils to share insurance costs as well as other costs.
81. The Union notes that regional organisations of Council are now commonplace and have allowed Councils to develop their own best responses to how their services can be shared and used for the constructive benefit of the community, balanced out against regional independence, local democratic structures and most importantly the continuation of regional employment. This is appropriate and while the regionalisation of these services has at times been encouraged by government grant and subsidies, each council should be able to manage these services in the best interests of their communities.
82. As the PwC report for the ALGA notes:

“A sizeable proportion of councils, including the vast majority of the larger ones, have made significant progress in recent years in making themselves more efficient. ..”
83. Further:

“Thirty years ago there were a much higher number of councils in Australia; more than 100 councils have been consolidated over the past 20 years. The local government sector in Victoria, for instance, undertook a series of amalgamations between 1992 and 1995 which reduced the number of councils from 210 to 78.

Over recent years the local government sector has achieved a range of significant efficiency initiatives...

“While more can be done to achieve greater cost efficiencies, this will not be enough to balance the books of many councils caught in a costs versus revenue squeeze, often not of their own making.”<sup>5</sup>

## Conclusions

84. The ASU believes that the financial issues facing local government in Australia are significant. The reference given to the productivity Commission offers little guidance to it in terms of how it is to be understood. However, it is clear that the intent is to focus on the revenue side of the ledger, excluding grants and subsidies, rather than on expenditure issues.
85. While overall financial performance is a balance between income and expenditure, the Union submits that the Commission should focus its inquiries on the income side, as proposed in the reference. In the Union’s opinion, councils should be able to make their own decisions about how they should best structure their operations and their finances in the best interests of the communities they represent. Governments should not arbitrarily impose policy positions such as rate caps or structural reform upon councils.
86. Prima facie, as democratically controlled bodies, Councils should be free to establish their own finances within the general legal frameworks determined by State Governments. To protect local communities from wide improperly set local rates and charges, local government revenues could become subject to independent review along the lines of independent regulatory tribunals such as those that operate in energy and other essential services.

## Further involvement in the research inquiry.

87. The ASU would welcome further involvement in the conduct of the research inquiry by the Commission. In particular, the Union would be willing to participate in any public hearings or consultations organized by the

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<sup>5</sup> PriceWaterhouseCoopers, Working for a Sustainable Future ,Overview, National Financial Sustainability Study of Local Government [for ALGA], sec 1.1.3

Commission to provide further input and discuss these issues further with the Commission.