



LOCAL  
GOVERNMENT  
MANAGERS  
AUSTRALIA

*Leading Professionals in Local Government*

# **Local Government in Tasmania-**

## **where to next?**

## **Local Government Managers Australia**

**Local Government Managers Australia** (LGMA) is a professional association representing managers and aspiring managers in local government throughout Australia and Asia-Pacific. Founded in 1936, LGMA has continued to expand its charter and membership services and now has around 2,500 members with divisions in New South Wales, Queensland, South Australia, Tasmania, Victoria and Western Australia and a national office in Melbourne, Victoria.

The LGMA is committed to the development and improvement of local government management, by maintaining high professional and ethical standards throughout the profession and ensuring that its members are at the forefront of change and innovation.

In Tasmania, LGMA has approximately 150 members, with its operations directed by a nine member Board. Many of its activities are organised through the three branches, although there are two important statewide activities each year - the Annual Conference held jointly with the Local Government Association of Tasmania and IPWEA in May/June and the LGMA Annual General Meeting and Conference which is held in October each year.

LGMA in Tasmania has a close working relationship with both the State Government and the Local Government Association of Tasmania, with membership on a number of groups assisting with policy development. LGMA considers it is important that it takes opportunities to make known the position of those working in local government to ensure a full spectrum of views is considered.

# Local Government in Tasmania

## Introduction

Councils have a significant impact on the lives of all Tasmanians, enabling the economic, social and cultural development of the community, supporting individuals and groups, and providing a wide range of services for the wellbeing of the community. Councils are complex businesses that provide and maintain a wide diversity of public buildings, amenities and services.

As well as implementing legislative responsibilities, policies and programs set by the Commonwealth and State Governments, councils provide a range of discretionary services in response to local community needs. Over recent decades, the range and scope of local government functions have expanded, moving beyond the traditional local government services, such as roads and waste management, to incorporate a growing range of human and social services, environmental and other services.

The impetus for this change has been multi faceted, coming from other spheres of Government, the community and from councils themselves. Commonwealth, State and Territory Governments increasingly require, often through legislation, that councils undertake a greater role in the areas of development and planning, public health and environmental management. Communities tend to be more connected to their local council than to the other spheres of government and look to councils to provide an increasing range and level of services.

The change has created enormous pressure on councils in terms of their capacity, particularly financial, to meet these demands. The issue of local government finances and financial sustainability is one of the most significant challenges facing the sector. Local Government, through the Australian Local Government Association (ALGA) and LGMA, has consistently argued for fair funding to enable it to fulfil the expectations placed upon it. This position has been supported by the findings of a number of studies, reviews and enquiries which have been undertaken, at both a national and state level over recent years.

## National Context

### The Cost Shifting Inquiry

The *Fair Share* Report on cost shifting and local government financing, tabled in Federal Parliament in November 2003, made the case that local government was under-resourced and was not achieving a fair share of taxation revenue. The Report also concluded that councils' functions had changed because other spheres of government expected local government to do more without providing any or sufficient funds to undertake additional functions.

In April 2006, the Local Government and Planning Ministers Council (LGPMC) signed an Intergovernmental Agreement (IGA) to stop cost-shifting. The *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations of Local Government Matters* was designed to establish an ongoing framework to address future cost-shifting.

While the IGA is an excellent initiative to address new program delivery proposals, the cumulative effect of past cost-shifting remains a constant drain upon existing council operations.

### **National Study into Local Government sustainability**

In 2006, ALGA commissioned PricewaterhouseCoopers (PwC) to complete a national study on the financial sustainability of local government. The study identified that local government was responding to rising community expectations by providing a growing range of essential services and infrastructure that underpinned local communities. This expansion in roles and service quality, coupled with growth in input prices generally exceeding the average rate of revenue growth, has seen a significant number of councils develop financial operating deficits.

Other studies conducted in a number of states have consistently demonstrated similar findings.

### **Productivity Commission study into Local Government Revenue Raising Capacity**

In 2007, the Australian Government commissioned the Productivity Commission to study:

- The capacity of different types of councils 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 and Territory regulatory limits on the revenue raising capacity of councils.

The Productivity Commission Report acknowledged that the local government sector is characterised by a high degree of diversity in terms of its functions, characteristics and revenue sources, and that this diversity exists both within and across jurisdictions. That is, no two councils are exactly the same.

While the sector generates a high proportion of its own revenue (the Productivity Commission estimated more than 80% of revenue across the sector is from own source revenue such as rates, fees and charges), the Commonwealth Government's general purpose funding is essential, particularly in many rural and remote communities where grants make up 80% of total income. Whether a local council can raise additional own-source revenue depends on issues including the requirements and expectations of the local community, the extent and nature of economic activity in the local council area, the demographic and geographic attributes of the local community, and of course, the community's willingness to pay for services provided. The report acknowledged that some councils, especially in rural areas, would struggle to raise more own-source revenue from local communities already faced with financial hardship.

### **Taxation reform**

The announcement in the Federal Budget 2008-09 of a comprehensive review of Australia's taxation system was welcomed by local government, as it provides another opportunity to put the case for a fair share of Commonwealth taxations revenues for local government.

The outcomes of the Henry review have the potential to significantly impact on the financial resourcing of local government into the future.

### **Local Government and Planning Ministers Council**

The Local Government Reform Fund has been established under the auspices of the LGPMC to improve infrastructure asset management and planning and build the sustainability and capacity of local governments to meet community needs.

The Commonwealth Government is seeking practical and innovative projects which will deliver long-term benefits for local communities and improve the capacity and sustainability of the local government sector. Project proposals are currently being developed by state governments in partnership with their individual local government associations.

## **The Tasmanian Context**

### **Review of Financial Sustainability of Local Government in Tasmania**

In 2006, the Local Government Association of Tasmania (LGAT), following similar studies in other states, commissioned a study by Access Economics into the sustainability of local government in Tasmania. The report investigated the major financial stressors on councils, highlighting an infrastructure backlog and the provision of increasing services to the community as the key challenges facing the ongoing financial sustainability of councils. The report also identified areas of improvement regarding sustainable financial management strategies and suggested a range of actions for councils to consider.

To assist with this, LGAT established a number of working groups to examine some specific area including the development of 10-year financial plans, improved asset management practices, the establishment of audit committees and the development of service policy statements.

This work was largely overtaken in priority by the reform of water and sewerage services and has now been subsumed into the 'Stronger Councils, Better Services' project (see below).

### **Auditor-General's Report**

The Auditor-General's [\*Report No. 1 - Local Government Authorities, Superannuation Funds and Other Public Bodies - June 2008\*](#) indicated that "A number of councils continue to incur deficits before capital grants. This position cannot be sustained over the medium to long term and action is needed to increase revenues or reduce costs to the point where all costs are covered from normal operating revenues."

### **Water and sewerage reform**

In 2008, legislation was passed transferring responsibility for the provision of water and sewerage services from individual councils to three newly established regional water and sewerage corporations and a fourth business providing statewide common services. These new arrangements commenced on 1 July 2009.

Water and sewerage reform presented a major challenge to local government, both in terms of the very complex and involved transition process and in terms of the major initial and ongoing financial detriment that it has generated for many councils throughout the State.

Further work undertaken by the State Government, the water and sewerage corporations and local government indicates that major funding by the Commonwealth Government will be needed if the reform objectives and outcomes are to be met without major financial hardship to the Tasmanian community.

### **Premier's Local Government Council**

At its last meeting in October 2009, the Premier's Local Government Council (PLGC) resolved that the focus of its 2010 work program would be on local government sustainability incorporating:

- the continuation of the *Stronger Councils, Better Services* initiative and other programs that encourage and assist councils to work collaboratively

- the implementation of long-term financial and asset management planning frameworks
- the development of sustainability objectives and indicators for the local government sector.

The PLGC noted that the State was well placed to attract Commonwealth funding under the Local Government Reform Fund given the work that the State Government and the LGAT had already undertaken on the development of long-term asset and financial management planning frameworks.

It was also confirmed that the State Government would undertake a review of valuation and rating, with the establishment of a group to develop terms of reference for a review.

### **East Coast Voluntary merger proposal**

Following a request from the Break O'Day and Glamorgan Spring Bay Councils, the Local Government Board was requested to undertake a review into the potential merger of those two councils.

The Board did not support the voluntary merger of the two councils as it did not consider that it had been provided with any compelling and long term rationale for such action. The Board was not convinced that if a merger were to proceed, the position of the merged council would be strong enough to ensure against the prospect of further mergers affecting the east coast region in the future.

It further found that it was not convinced that the potential savings identified would be sufficient to address the issues currently facing the two stand alone councils.

The Board considered that a merger should only be considered when it will lead to:

- long term financial sustainability, enabling the (merged) council to provide services that meet community expectations and statutory requirements; and
- benefits for the community such as improved governance, community capacity building, improved service delivery or improved management practices including asset management and long term financial planning and resource management.

The Board is currently undertaking the second stage of that review, being the development of guidelines for future voluntary mergers and is due to provide its report to the Minister in early 2010.

### **Regional Planning Initiative**

Work is continuing on this initiative which aims to provide:

- more consistency in the format and structure of planning schemes;
- common objectives and provisions; and
- fewer schemes through the introduction of regionally based planning schemes for the north west, north and south of the State.

## Where to next?

The conclusion easily drawn and often touted is that there should be further amalgamations/mergers of councils, as there are too many councils in Tasmania, with a number that are too small in terms of the rate base on which they depend to have the capacity to meet the demands placed upon them. This may well be the case, although academic and anecdotal evidence is divided on the actual benefits achieved by council amalgamations in the past.

The last major reform of local government in Tasmania occurred in 1993 when the number of councils was reduced from 46 to 29 and a new Local Government Act was introduced. In terms of structural reform, no further amalgamations or mergers have occurred, although a significant reform was attempted in 1997.

This is not to say that local government has not been subjected to considerable change through the intervening period. As well as major reform of the *Local Government Act 1993* and to the provision of water and sewerage services, there have been many reforms that have impacted on local government and the services it provides in the areas of planning and building control, environmental management, animal control and public health. Much of this reform arose in an *ad hoc* way from different parts of the State Government, the business sector and the wider community, with little consideration to the overall relationship of the reforms or the impact on councils in responding to the proposals as they are developed and then the implementation of the final outcome.

Further, as indicated above, there is a considerable number of enquiries and projects underway, at both a national and state level, which will, or has the potential to impact on both the sustainability of councils, what they do and how they operate.

Apart from the call on resources to respond to these proposals and the impact this has on the provision of services to the community, this constant flow of reform creates uncertainty about the future structure and role of local government as well as significant impact on the work of professionals working in local government – the members of LGMA. Local government could be forgiven for being reform-weary.

However, it is fair to say that within local government there are many, both elected members and staff, who consider that, in light of various studies that have already been undertaken, that further reform, including structural change, is inevitable.

Reforms processes are expensive – in terms of dollars, time and, particularly, emotional energy. Further, there will always be those who see themselves as losers in a reform process, be it councils, individual councillors, employees or communities and will therefore resist change.

**What, then, is the best way to achieve reform in a cost-effective and harmonious way, building on this momentum and making the best use of work currently being undertaken?**

Given the failure of the 1997 reforms, it is not surprising that a State Government might be reluctant to impose reform on local government and LGMA agrees that such an approach is abhorrent and insulting to the sector. However, whilst appreciating the rationale behind a 'no forced amalgamation/voluntary merger policy position', LGMA is concerned that this

approach has the potential to actually exacerbate the difficulties facing the sector for a number of reasons:

- it does not ensure:
  - that councils that might wish to participate in merger discussions are necessarily included; or,
  - the inclusion of councils who do not wish to participate in discussions but who in a rational approach should be included;
- there is potential for this approach to be very costly;
- given that many councils do not have long term financial and asset management plans in place, the information on which to make informed decisions is incomplete.

The outcome could be a spread of councils across the State which is even more inconsistent in terms of its sustainability and capacity than is currently the case, but with the resolution of such shortcomings at a later date being more problematic.

There are other reasons why pursuing mergers in the immediate future might be premature:

- The full repercussions of the water and sewerage reforms are not yet fully realised;
- Reforms to the planning system, including the development of regional plans, might well influence consideration of council boundaries.

However, LGMA considers that advantage should be taken of the current set of circumstances to define how future reform will be undertaken:

- looking at the whole system of local government on the basis of an agreed understanding of the role and functions of councils;
- with an agreed, inclusive and fully resourced process; and
- with a commitment by all stakeholders to abide by the outcome.

In closing, change processes, such as those that occurred in the reform of water and sewerage services, can be extremely disruptive. Whatever the future direction of local government in Tasmania, it is vitally important for the success of major reform that it is undertaken from a strategic perspective in a genuine atmosphere of trust and cooperation between all parties, that it is planned well and that it is done once to avoid ongoing and repeated major disruption.