



The Future of Local Government in the Federation

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FiscalStar council sustainability report

- The 2008 FiscalStar report found that 35 of the 100 largest councils in NSW need to increase their rates, fees and charges by between 80% and 200% over the next ten years or severely cut their services in order to regain financial sustainability.
- Another 19 councils will also need to take drastic action because their financial sustainability is marginal.

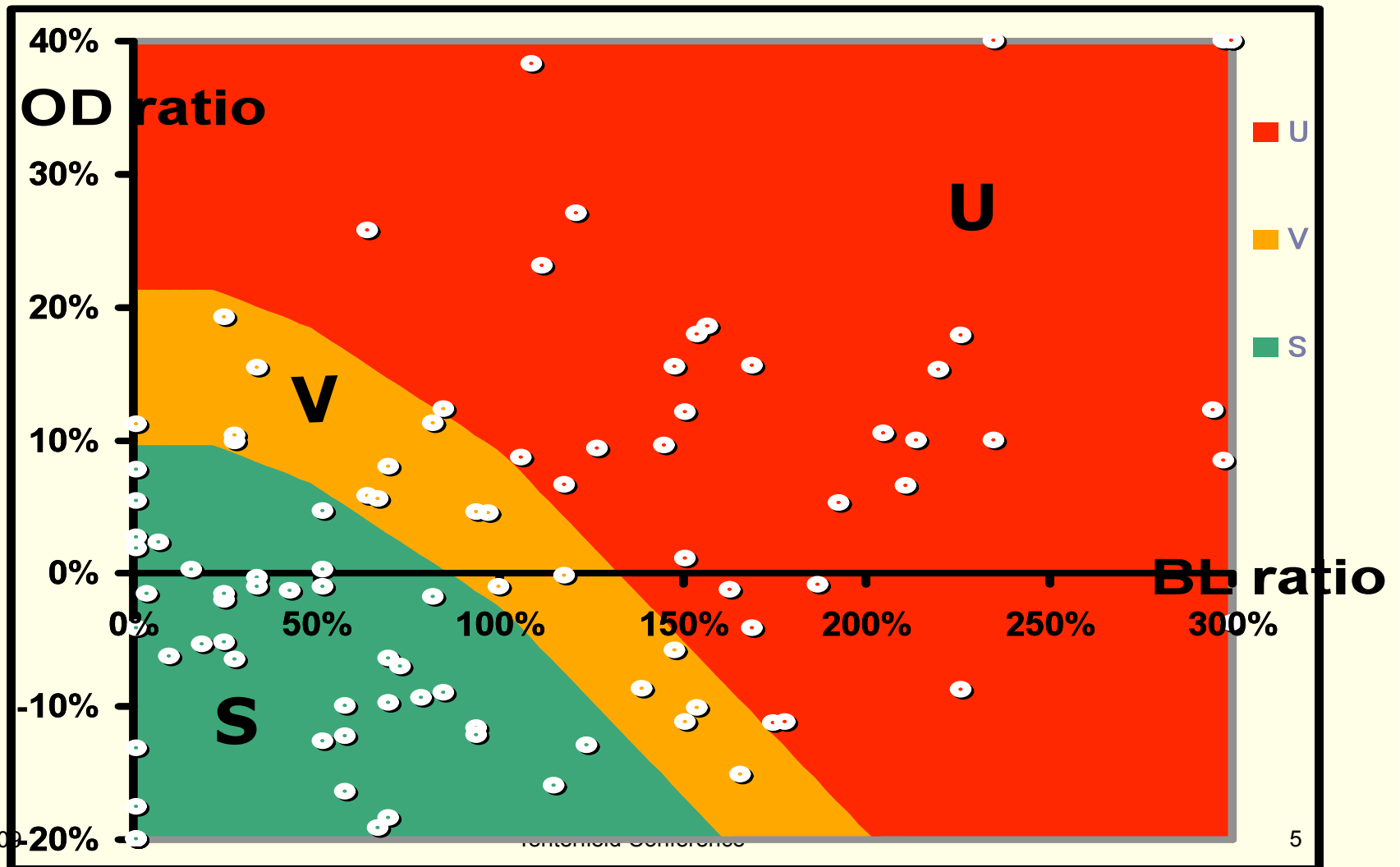
FiscalStar council sustainability report

The Financial Sustainability of Existing Financial and Infrastructure Policies, Largest 100 NSW Councils, 2006/07

Sustainability Rating	Number of Councils
Sustainable	43
Vulnerable	19
Unsustainable	35
Not assessed*	3
	100

* 3 of the largest 100 NSW councils (Botany Bay, Gwydir and Wellington) have published neither their 2005/06 nor their 2006/07 statutory financial reports in full on their websites

FiscalStar council sustainability report



FiscalStar council sustainability report

- The unsustainable group included a large number of fast growing regional coastal and outer-metropolitan councils.
- 11 of the 18 regional coastal urban councils were unsustainable. Only 3 were sustainable.
- 10 of the 22 outer-metropolitan councils were unsustainable and another 4 vulnerable.
- By contrast a majority of inner metropolitan councils and regional rural councils were sustainable.

FiscalStar council sustainability report

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	Sustainable	Vulnerable	Unsustainable
Inner- Metropolitan	11	3	5
Outer-Metropolitan	10	4	8
Regional Coastal Urban	3	4	11
Regional Inland Urban	6	5	6
Regional Rural	13	3	5
Total	43	19	35

FiscalStar council sustainability report

- The heart of the problem is that most councils have a huge backlog of infrastructure (roads, stormwater drains, buildings, etc) that has passed its useful life and needs renewal, not just patching to be safe, sound and slightly.
- For the 97 councils surveyed, the (unweighted) average backlog ratio is 87%, which contrasts starkly with their (unweighted) average debt ratio of 23%.

FiscalStar council sustainability report

- FiscalStar found that the total infrastructure backlog for the 97 councils (excluding W&S) was \$4.3 billion.
- This would suggest that the total for all 152 councils in NSW (excluding W&S) in June 2007 was around \$4.8 billion.

FiscalStar council sustainability report

- Adding a council's infrastructure backlog to its outstanding debt gives a measure of its total 'broad liabilities'.
- FiscalStar found that the 'broad liabilities' of all councils that are unsustainable averages 187% of their total annual operating revenue.

FiscalStar council sustainability report

- For 'vulnerable' councils the broad liabilities ratio average is 95%. To be sustainable a council's combined debt and backlog should not exceed around 60%.
- Even 'sustainable' councils need to be vigilant because their average is 52% suggesting that many are living on the edge of sustainability.

FiscalStar council sustainability report

- The 'unsustainable' and 'vulnerable' councils also have difficulties on other fronts.
- Most importantly their operating deficits when expressed as a proportion of their own source revenues average 9%.
- By contrast 'sustainable' councils have operating surplus ratios averaging around 12%.

FiscalStar council sustainability report

- FiscalStar found other weaknesses of many councils are:
 - a heavy reliance on tenuous grants from other governments
 - little or no spare cash to meet emergencies and special needs
 - expenses growing well in excess of underlying costs, and
 - insufficient capital works spending to renew ageing infrastructure.

National estimate of council sustainability

- Using the latest FiscalStar results for NSW and the findings of inquiries in all states bar Queensland, Review Today estimates that nationally local government has an:
 - infrastructure renewals backlog of \$10.2 billion,
 - annuals infrastructure renewals gap of \$0.8 billion, and
 - annual infrastructure funding gap of \$1.6 billion.

National estimate of council sustainability

State LGI Estimates (excluding Water & Sewerage)	Infrastruc Renewals Backlog	Debt Charges over 25 yrs (assuming 6.3% interest)	Infrastruc Renewals Gap (per annum)	Infrastruc Funding Gap (per annum)
NSW (152)	\$4,769m	\$379m	\$385m	\$764m
SA (68)	\$300m	\$24m	\$20m	\$44m
WA (142)	\$1,750m	\$139m	\$110m	\$249m
Vic (79)	\$806m	\$64m	\$81m	\$145m
Tas (29)	\$85m	\$7m	\$25m	\$32m
Subtotal	\$7,710m	\$613m	\$621m	\$1,234m
Pro-rata National Est	\$10,185m	\$810m	\$820m	\$1,630m

The elephant in the room is infrastructure

- The Harvard University guru on change management, John Kotter, says that fundamental change is impossible without a crisis.
- Changing the role of local government in the federation will require a crisis.
- The most likely candidate is the elephant in the room – a growing community infrastructure backlog and renewals gap – that can't be overcome without a revamp of federal and state funding to local govt.

The elephant in the room is infrastructure

- In 1995 a young family of five died when their motor car plunged into a huge hole in the old Pacific Highway at Somersby on the NSW Central Coast.
- A rusty storm-water steel pipe culvert under the road had collapsed because it had not been renewed when it should have been.
- This may be an extreme example, but as the backlog of unsound and unsafe community infrastructure grows the risk of injuries and fatalities will rise.

Old Pacific Highway Cave-in , Somersby, Central Coast, NSW



Family tragedy ... Roslyn Bragg and her partner, Adam Holt; daughters Madison and Jasmine with their cousin, Travis Bragg; and Sharon Bragg, the mother of Travis, pictured at Central Local Court yesterday.



Maintenance concerns ... rusted-through corrugated steel pipes that supported the Pacific Highway at Piles Creek.



Swept away ... five people died here. Photo: Jacky Shouket

The elephant in the room is infrastructure

- Local councils also need extra funding to enhance existing infrastructure and services to cope with an expanding and ageing population. Older people make more demands on local services and facilities.
- As the local infrastructure crisis worsens voters will increasingly vent their frustration on state and commonwealth politicians as they eventually realise their local councils are too small to fix the problem themselves.

Australia's under-sized local government

- Indeed the relative capacity of local government in Australia to address local needs is much smaller than most people think.
- Anecdotal evidence collected by the NSW Local Govt. Inquiry (2006) found that citizens think that local councils constitute about 10% to 30% of the Australian public sector.
- Yet the reality is that local government accounts for only about 6% of general government outlays and 3% of taxes in Australia.

Australia's under-sized local government

- Recent data collected by Dexia's international research department shows that in 2006 local government expenditure as a share of GDP was only 2.3% in Australia compared with 15.1% in Japan, 12.9% in the UK, 12.7% in the European Union and 8.5% in the USA.
- Although Australia is a very large country, it does not entrust much power, let alone resources, to its lowest tier of government.

Australia's under-sized local government

- This is also born out by Dr Mark Drummond who found that (circa 2000) the local govt. sector's share of total government expenditure in developed countries was:
 - Australia: 6.4%
 - Other Classic Federations: 17.7% to 26.2%
 - Other Types of Federations: 12.4% to 33.0%
 - Devolved Unitary Systems: 26.1% to 74.2%
 - Centralised Unitary Systems: 10.4% to 25.5%

Australia's under-sized local government

- Another interesting finding of Drummond is that the average residency size of local government units in other countries is generally much smaller than in Australia.
- For instance in other classic federal systems the average population of the lowest tier of government was only 9.2% (Switzerland), 12.1% (USA) and 29.4% (Canada) of that of an Australian local council.

Australia's under-sized local government

- In other types of federations the average population of the lowest tier of government was 12.1% (Austria), 17.5% (Spain), 18.6% (Russia), 19.0% (Germany), and 60.9% (Belgium), of that of Australia.

Should our councils be bigger?

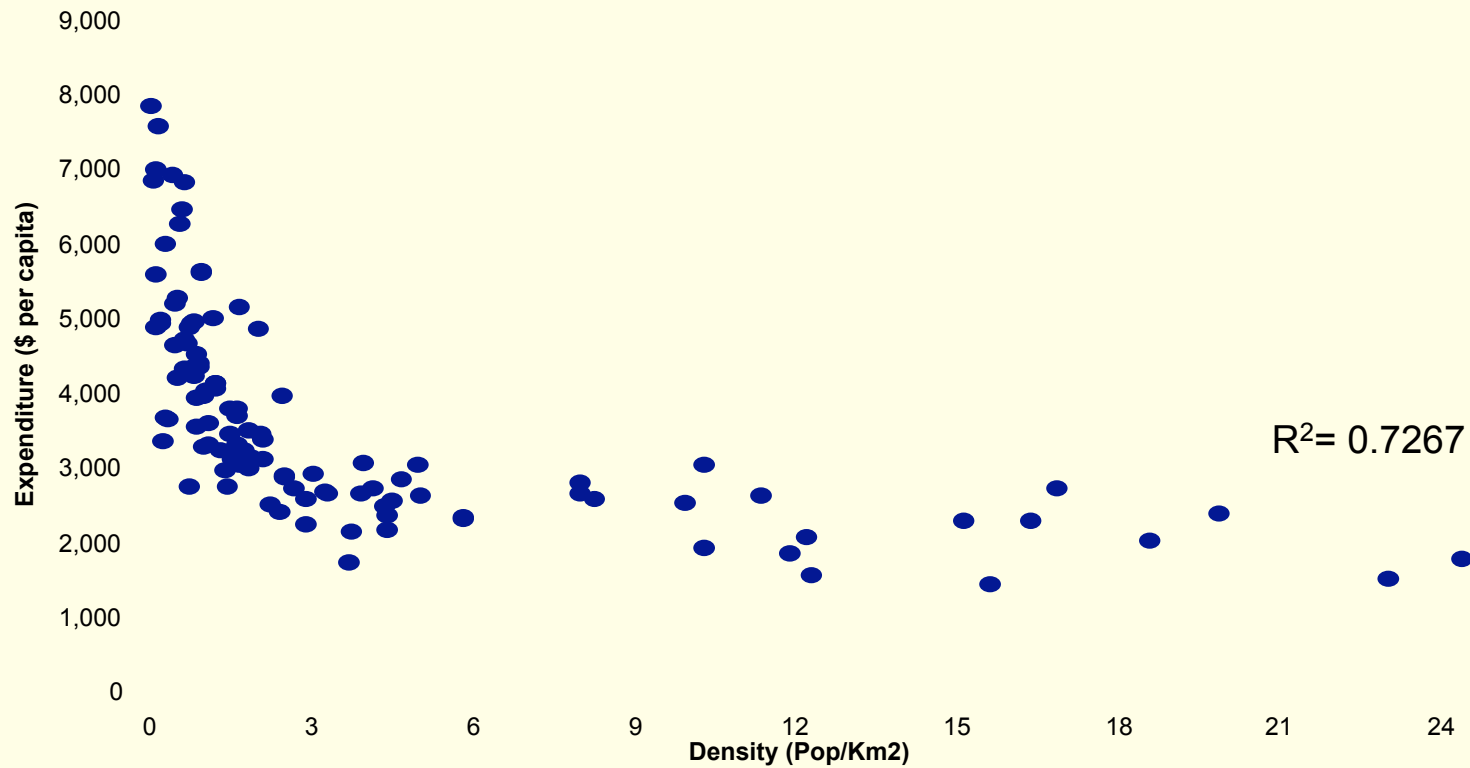
- Those who want amalgamations because they think the average Australian local council is too small by world standards are misinformed.
- Also there is little evidence either in Australia or elsewhere that smaller local government units necessarily suffer diseconomies of scale.
- Where small scale is a handicap it can often be overcome using shared services centres or outsourcing functions (e.g. rate collections, capital works) to specialist providers.

Should our councils be bigger?

- Except for the smallest councils (under 8,000 in rural areas), the 2006 NSW Local Govt Inquiry found no conclusive evidence that mergers would reduce unit costs.
- Even in these cases a lack of population density rather than size appeared to be the main cause of higher operating costs per resident.

Should our councils be bigger?

Remote Councils Costs v their Pop'n Dispersal*



Should our councils be bigger?

- Furthermore, where legislation (such as that in NSW) prohibits:
 - merged councils from having forced redundancies for 3 years,
 - changing employees terms and conditions,
 - relocating staff outside the boundaries of the former council area if they claim hardship, and
 - reducing pre-existing employment levels in rural areas

mergers are unlikely to yield efficiency gains.

The future of the federation?

- Should Local Government be given a more prominent role in the federation what might this take?
- The latest opinion polling would suggest that people have a higher regard for their local council than state government.

The future of the federation?

- A Sydney Morning Herald survey of its online readers panel in August 2008 found that if Australia was to have two levels of government, 70% of respondents would do away with state government and keep only federal and local governments.

The future of the federation?

- Also a survey of 502 people in NSW in 2006 by Griffith and Charles Sturt Universities found that three quarters wanted a change to the present federation.
- Nearly half preferred the most radical option – a two tier system with only federal and regional governments.

The future of the federation?

- However, a Griffith University / Newspoll survey of 1201 people released in July 2008 found that:
 - Most Australians (58%) would not prefer a system of govt. with fewer levels than today.
 - Yet only 31% were against reforming the federal system as it presently is.

Continued.....

The future of the federation?

- 52% of people felt that decisions should be made at the lowest level of govt. competent to deal with the decision whereas only 41% wanted the national govt to make most decisions.

The future of the federation?

- The reality is that any fundamental change to the federation will require a constitutional referendum which is unlikely to succeed given that Australian's have twice rejected the notion of recognising local government as a legitimate tier of government.

The future of the federation?

- While only 9% of Australians favour more states, doing so is the easiest way for Australia to have smaller regional government while still retaining local government.
- Also it was the solution envisaged for Australia by the constitution's founding fathers who recognised that 6 states might not be enough for a nation whose population would expand beyond the 4 million that lived in 1901.

The future of the federation?

- One reason I think people don't want more states is that they associate it with present state governments rather than regional government.
- If people think that state governments are remote then asking them whether they want more of them will hardly elicit a favourable answer.

The future of the federation?

- Another difficulty is that except for Queensland our population is very heavily concentrated in state capital cities which makes it difficult to establish regional governments that would have sufficient taxpayers to support the corporate overheads of state administrations.

Why is Australia so centralised?

- Yet the absence of regional government may be the very reason that Australia's population and economy is so centred on a few state capitals.
- People want good jobs and amenities which at present are concentrated in the national or state capitals.

Why is Australia so centralised?

- However, restrictions on new land releases and development of existing sites in our major state capitals has made the average prices of homes in these cities among the most expensive in the world relative to average family income.
- A record high immigration program combined with a severe shortage of housing stock (due to years of under-building) means that the sharp drop in house prices experienced in other countries is unlikely to happen here.

Why is Australia so centralised?

- If community infrastructure in regional cities was improved to the standard of other developed countries those people struggling to find affordable accommodation in metropolitan Sydney, Melbourne, Brisbane, etc would have a viable alternative.
- Also the urban sprawl and consolidation of our state capitals, which is causing a political backlash, need not be so intense.

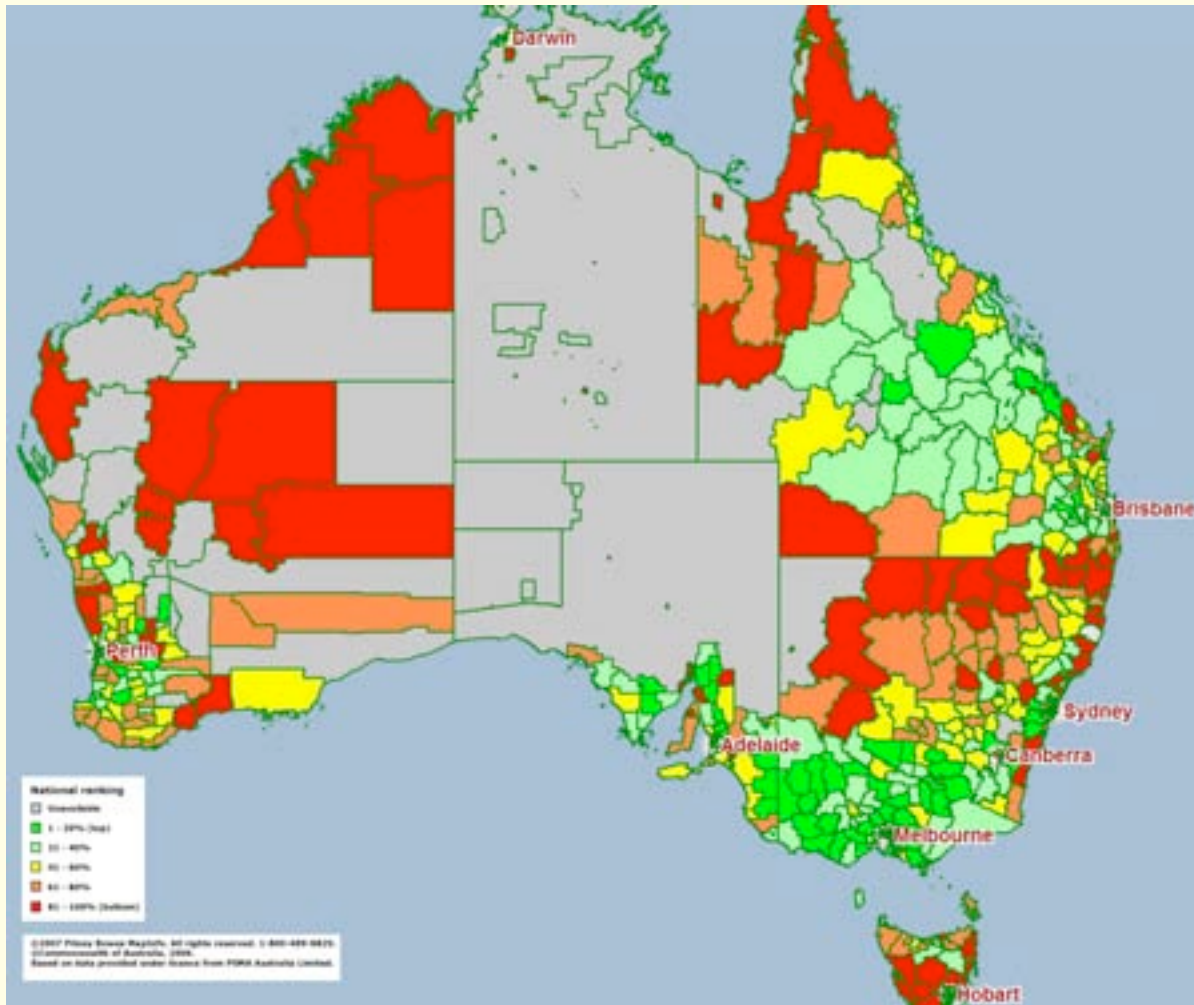
Why is Australia so centralised?

- Deficient local infrastructure in regional Australia is impeding population and economic decentralisation that would take pressure off our major metropolises.
- The most bizarre example of this is Port Hedland where the state's refusal to release more residential land and a dearth of community infrastructure has forced Australia's fastest growing town to effectively reject permanent settlement.

Why is Australia so centralised?

- The inaugural BankWest Quality of Life Index released in August 2008 showed that 21 of Australia's most liveable communities are in metropolitan suburbs rather than regional towns.
- 590 LGAs across Australia were ranked against 10 criteria including employment rates, crime rates, internet access, health, education levels, earnings, home ownership rates, house size, vacant homes, community involvement.

BankWest Quality of Life Index



Why is Australia so centralised?

- Of the 25 top communities nationally, 8 are in Sydney, 6 in Melbourne, 4 in Perth, 2 in Adelaide and 1 in Canberra.
- Though many dream of a sea or tree change, in reality the best quality of life is found in the metropolitan suburbs, particularly Sydney's north, Melbourne's east and western Perth.
- In capital city suburbs residents often have the best of all worlds with access to good schools, modern hospitals, reliable jobs, large houses, fast internet and low crime.

Why is Australia so centralised?

- The share of the top 10 communities found in the capitals of the 4 largest states was:
 - Sydney – 9
 - Melbourne – 7
 - Brisbane – 2
 - Perth – 9
- Only Queensland (the most decentralised state) had a better lifestyle outside its capital.
- 6 of the 7 LGAs in the ACT ranked in the top 10% of Australia.

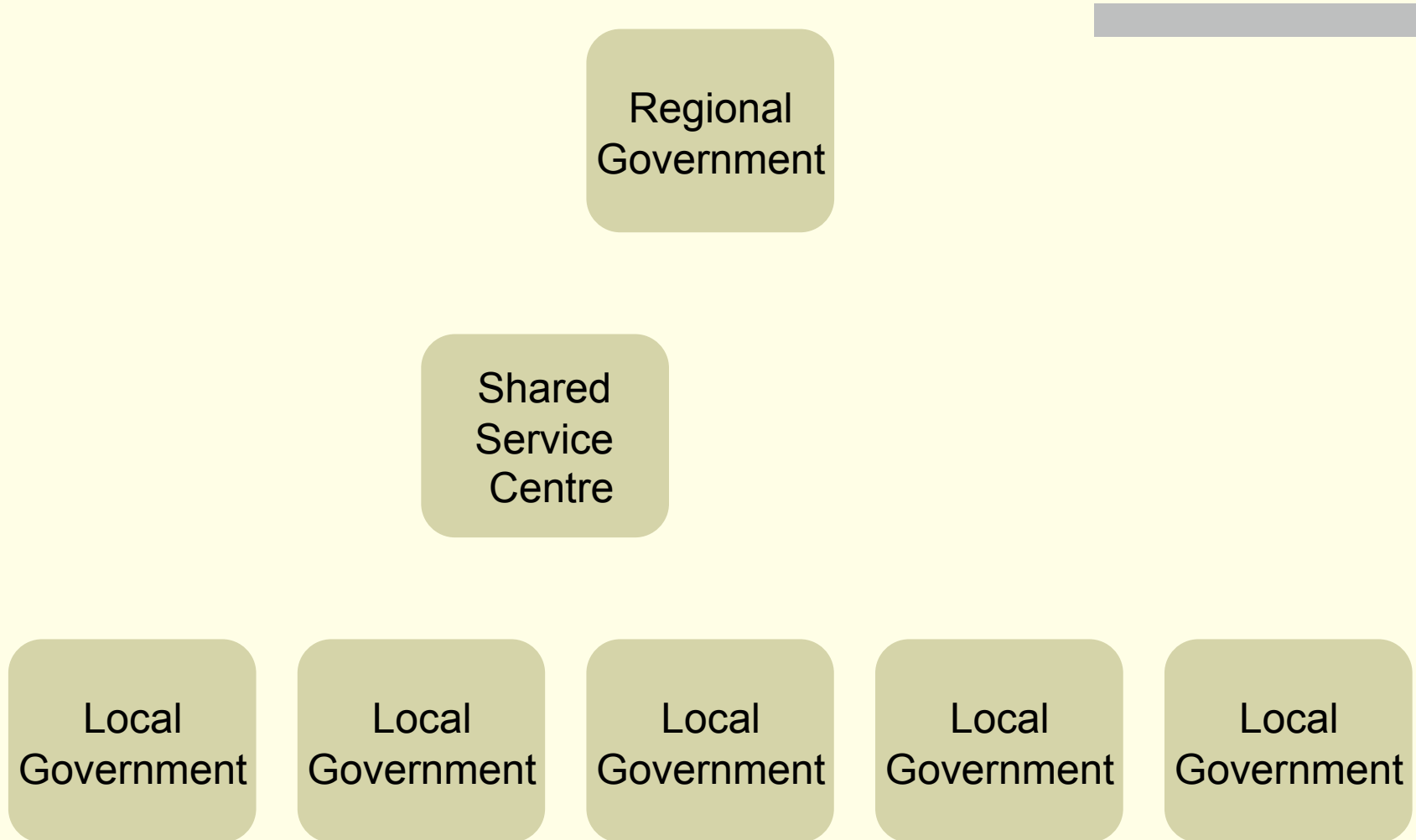
De-concentrating Australia

- Australia's population will continue to gravitate to a few state capitals as long as we have only a few states. That's because both public and corporate administrations in Australia are largely run out of state capitals.
- By breaking up our mainland states into say 15 smaller regional governments we stand a better chance of fostering socially and economically attractive medium sized cities as exist in most other developed countries.

De-concentrating Australia

- To minimise the cost of government corporate overheads a common shared service centre should provide back-office services to both the regional government and all local governments within a region.
- With shared support services local councils could cover smaller geographic areas than now without losing any economies of scale.
- The shared services centre would define the capital city of a regional government and act as a magnet for its economic activity.

De-concentrating Australia



De-concentrating Australia

- This would give regional cities a political importance and critical economic mass to compete for business and population with the existing five metropolitan cities that dominate Australian life and activity.
- The local infrastructure crisis might be the catalyst that forces Australians to revisit the federation whose imbalance of power and resources between the centre and the periphery has reached extremes not evident anywhere else in the developed world.

The Future of Local Government in the Federation

■ THE END

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