



Western Australian Local Government Association

SUBMISSION

Western Australian Regional Development Trust

***Review of the Royalties for Regions
Country Local Government Fund***

May 2012

Submission to:

Western Australian Regional Development Trust

On the report:

*Review of the Royalties for Regions
Country Local Government Fund*

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Executive Summary

Local Governments are a key component of the Australian Federation and provide a range of services to communities all over Western Australia. Rural and regional Local Governments face considerable challenges, not least of which is dealing with a significant infrastructure backlog.

Consequently, since its inception, the Country Local Government Fund (CLGF) has made a significant and tangible difference to country Local Governments and country communities. The Association strongly supports the continuation of the Fund at its current, or an increased, level.

The focus of the CLGF should continue to be primarily on infrastructure and secondarily on Local Government capacity building.

The Association supports the use of a proportion of the capacity building component of the CLGF for the exploration and implementation of voluntary Local Government amalgamations. It is not appropriate, however, for the CLGF to be used as a tool to coerce amalgamations. Further, capacity building initiatives should be available to *all* Local Governments.

The Western Australian Regional Development Trust has recommended investigation of spending the CLGF on infrastructure in Aboriginal Communities. This is not supported: infrastructure in Aboriginal Communities must be upgraded prior to handover to Local Government with separate State and Commonwealth funding. Following handover to Local Government, Councils may decide to invest CLGF monies in infrastructure in Aboriginal Communities.

The Association supports the introduction of a contestable component of the Country Local Government Fund on the condition that the contestable component is a minority of the Fund and is to be put towards significant regional projects.

The Trust has recommended the introduction of a 'rating' system to be applied to Local Governments in the areas of capability, capacity, prospects and risk. The application of a 'rating' system of Local Governments is not supported. Further, the Trust is proposing exclusion from the CLGF as an outcome of the 'rating' system. The Association suggests that increased support is a more appropriate outcome than exclusion.

An important outcome of this Review is clarification of the role of Regional Development Commissions (RDC) in the Country Local Government Fund. The decision-making role rightly belongs to democratically elected Councils. RDCs should assist Local

Governments by facilitating the selection of regional projects, providing administrative assistance and helping Local Governments pursue other sources of funding.

The Trust has suggested a number of options to streamline the CLGF administrative and reporting processes. The Association strongly supports any reforms that assist Local Governments by reducing the administrative and compliance burden.

Background & Context

About WALGA

The Western Australian Local Government Association (WALGA or “The Association”) is the united voice of Local Government in Western Australia. The Association is an independent, membership-based organisation representing and supporting the work and interests of all 140 Local Governments in Western Australia.

The Association provides an essential voice for approximately 1,250 elected members and over 14,500 employees of the Local Governments in Western Australia and Christmas Island and Cocos (Keeling) Island Councils. The Association also provides professional advice and offers services that deliver financial benefits to Local Governments and the communities they serve.

About Local Government¹

Local Governments play a key role in Australia’s system of government and provide a range of services to their respective communities which span the length and breadth of Western Australia.

Local Governments, in one form or another, have existed in Western Australia since the arrival of settlers from Britain in the nineteenth century. The first piece of legislation to weave the fabric of today’s Local Government sector was the *Towns Improvement Act of 1838*.² Today, Local Government is constituted and primarily regulated by the *Local Government Act 1995* but there are many other legislative instruments which impact the way Local Governments operate in their diverse array of activities.

Local Governments are a key democratic institution in Western Australia’s local communities and Councils have well-established relationships with the communities they serve and represent, local businesses and organisations as well as other spheres of government.³

Services provided by Local Governments in Western Australia include the traditional roads and waste collection but also now extend to recreation, medical services and other human services.⁴

¹ WALGA 2011, p6

² WALGA 2012

³ Aulich *et al*, 2011 Volume 2, p13

⁴ PricewaterhouseCoopers 2006

In a State as socially, geographically and economically diverse as Western Australia, the scale and scope of Local Governments, the services they provide and their service delivery capacity are almost as diverse as Western Australia itself. The challenge for policy-makers is to develop and administer a system of Local Government which provides sufficient flexibility and capacity for all Local Governments to best serve their communities in governance, democratic representation, service delivery and the provision of infrastructure.

All Local Governments throughout Western Australia continually strive to provide the highest quality services within the constraints of Local Government revenue streams, Australia's vertical fiscal imbalance and ongoing cost-shifting from other spheres of Government, all of which are well documented by the 2003 Hawker Report⁵ and many reports on Local Government finances before and since.⁶

Context⁷

Beyond systemic funding pressures faced by Local Governments, there are a number of challenges faced by rural and remote Local Governments:⁸

- Difficulty securing key staff;
- Increasing community expectations;
- Funding pressures;
- Local Government as the service provider of last resort.

As the service provider of last resort, the financial constraints of Local Governments in rural areas are significantly restricted when Councils fill the void left by other spheres of government to fund medical and other human services which are expected by the community.

There are also geographic factors which impact Local Governments' capacity to fund service delivery and infrastructure upgrades and maintenance. Western Australia, which accounts for approximately one third of the continent of Australia, is sparsely populated and highly urbanised. Approximately 75 percent of the State's 2.2 million people live in the Perth metropolitan region.⁹ The geographic reality of a sparsely populated land mass increases the financial viability challenges that confront Western Australia's 109 country Local Governments.

⁵ House of Representatives Standing Committee on Economics, Finance and Public Administration 2003

⁶ See also Aulich *et al* 2011 Volume 1

⁷ WALGA 2011, p7

⁸ Morris, Callaghan and Walker 2010

⁹ Australian Bureau of Statistics 2006

Coupled with geographic factors are the demographic challenges confronting country Local Governments within the context of Australia's ageing population. Many Local Governments in agricultural areas face a trend of population decline, leaving a shrinking rate base to fund renewal and maintenance of ageing infrastructure. Other Local Governments, in 'sea-change' or resource-rich locations, face problems associated with rapid growth: development of new facilities and infrastructure ahead of the community's capacity to pay.

In this context, the Country Local Government Fund has provided country Local Governments with opportunities to address the infrastructure backlog, build organisational capacity and undertake projects of regional significance, all of which provide real and demonstrable benefits to country communities and country Western Australians.

About the Review

The Western Australian Regional Development Trust (WARDT or the "Trust") have undertaken a detailed and thorough Review of the Royalties for Regions Country Local Government Fund.

WALGA commends the Trust for their engagement process while undertaking the Review and for the detail and care evident in their report.

The Trust's engagement process commenced with the distribution of an Issues Paper with an invitation for submissions.

The Issues Paper outlined the issues for consideration in the Review:

Overall, whether there is a continuing need for the CLGF, and if so, in what form, with what budget parameters, and with what purpose.

1. The extent to which the stated aims of the CLGF are being met, in particular, have the objectives of the CLGF been materially achieved:

- how the CLGF is addressing local governments' infrastructure backlogs and enhancing local governments' capacity building*
- how the financial sustainability of country local governments is being improved through improved asset management*
- the effectiveness of funds directed to voluntary amalgamation*
- how CLGF is assisting groups of country local governments to fund larger scale infrastructure projects*
- the effect or impact of funds allocated under the CLGF*

2. *Whether country local government or the Department of Regional Development and Lands has experienced difficulties in applications and approvals, executing, acquitting, reporting, or managing projects under the CLGF.*
3. *The efficacy of the current formula in allocating funds to individual and groups of local governments, including whether this approach should be retained, reformed or replaced*
4. *The appropriate proportional allocation of funding between individual, group and regional components over time*
5. *The scope of initiatives that should be funded and in particular, whether the existing focus on infrastructure and capacity building should be retained, narrowed, broadened or otherwise changed*
6. *Matters that would improve the efficiency and effectiveness of the Fund's implementation including the existing processes for forward capital works development, and business plan development.*
7. *Any other relevant matters.*

Many Local Governments submitted to the Trust on the Issues Paper, as did WALGA.

WALGA's Submission on the Issues Paper

The Association's submission on the Issues Paper addressed the issues listed above from a strategic, sector-wide perspective. Many Local Governments made individual submissions to the Review to offer a local and regional perspective.

WALGA's submission on the Issues Paper, including its nine recommendations, was endorsed by the WALGA State Council at their 7 December 2011 meeting.

Recommendations

The nine recommendations from WALGA's Submission on the Issues Paper are listed below.¹⁰

1. That the Country Local Government Fund continue as a grant program direct to Local Government
2. That the Country Local Government Fund continues to focus on infrastructure and the infrastructure backlog with capacity building as a secondary objective

¹⁰ WALGA 2011, p24

3. That the establishment of a reserve fund which could be used to supplement the Country Local Government Fund in years in which State Royalty receipts are lower than forecast be considered to enable certainty of funding
4. That decision-making regarding the Country Local Government Fund be undertaken by Local Governments with Regional Development Commissions assisting with facilitation if required
5. A minimum of 50 percent of the total pool of the Country Local Government Fund be allocated to individual Local Governments. In areas where regional projects are determined by the Local Governments to be of a higher priority, timely and meet strategic objectives, then up to 100 percent of the Country Local Government Fund may be allocated to regional projects.
6. That the formula used to determine funding allocations for the Country Local Government Fund match the purpose of the Fund
7. That the capacity building funding associated with voluntary amalgamations be broadened to be available to all Local Governments
8. That clear funding guidelines for the Country Local Government Fund be released well in advance of the year of funding
9. That the Country Local Government Fund acquittal process be simplified and that the process utilised by the Roads to Recovery program be investigated as a potential model

WALGA's Submission on the Trust's Report

While the Trust ought to be commended for their work, the Trust's report makes a number of recommendations which the Association does not support. The Association acknowledges the benefits the Country Local Government Fund delivers to country Local Governments and the communities they serve and represent.

In this context, the Association is seeking to offer constructive feedback to the Trust to enhance the Country Local Government Fund.

In Chapter 12 of the report, the Trust structure their recommendations around eight key issues:

1. What is the purpose of the Country Local Government Fund?
2. What should be funded?
3. How much money is needed?
4. Who should be funded?
5. How should they be funded?

6. Who makes decisions on what basis?
7. What will deliver the best outcomes?
8. Capacity building.

WALGA will follow the same structure in responding to the issues and recommendations put forward by the Trust.

Due to the limited timeframe for submissions on the Trust's report, this submission has not been formally endorsed by the WALGA State Council. Accordingly, this submission is presented to the Trust on an interim basis, subject to State Council consideration at their 5 July 2012 meeting.

Comments on the Review

The Association reiterates its appreciation to the Trust for the manner in which the Review has been undertaken. The Review has involved thorough engagement with Local Governments and the Association. For this, the Trust ought to be commended.

The Association strongly supports the continuation of the Country Local Government Fund; the CLGF is an important and highly valued fund to country Local Governments and country communities. The importance of the CLGF is likely to increase into the medium term as Western Australia's population continues to grow as a result of increasing private sector investment and as people relocate to regional areas for lifestyle reasons.

There are a number of conclusions and recommendations in the Trust's report with which the Association does not agree. WALGA has sought to offer constructive alternatives in a number of cases, rather than blunt opposition.

In this context, the Association supports recommendation 1 of the Trust's report but requests Local Government engagement in the consideration of the progress reports referred to in the recommendation. At the very least, the Association requests that progress reports are made available to key stakeholders including country Local Governments and WALGA.

This will enable the Local Government sector to assist the Department of Regional Development and Lands in achieving the best outcomes from the investment in country Western Australia.

Recommendation 1

The Trust recommends that RDL provide both the Minister and the Trust with a detailed report of progress made with respect to the recommendations of the CLGF Review by 31 December 2012, and with a further update by 1 July 2013.

The Association supports the Trust's conclusion that the program should continue uninterrupted until July 2013. This will provide the Local Government sector the opportunity to prepare for any substantial changes to the CLGF that eventuate from this Review.

The Association acknowledges that the Country Local Government Fund is subject to significant scrutiny and that there is a need for it to be robust in terms of its outcomes and its accountability. For this reason, WALGA and the Local Government sector have

welcomed this review and welcomed the opportunity to meaningfully contribute to this review.

What is the purpose of the fund?

The Association recommended in its submission to the Issues Paper, “that the Country Local Government Fund continues to focus on infrastructure and the infrastructure backlog with capacity building as a secondary objective”.¹¹

This recommendation is still valid. The Association argues that, while the CLGF has assisted Local Governments address their infrastructure backlog to an extent, there is still a significant need for infrastructure funding in non-metropolitan Western Australia.

In line with the Association’s submission to the Issues Paper, recommendation 2 is supported.

Recommendation 2

The Trust recommends that the Minister accept that:

- 1. The purpose of the CLGF is to satisfy the intent of sections 4 and 9(1)(a) of the Act, principally by addressing the infrastructure requirements of country local government either through individual CLGs or contiguous groups of CLGs;*
- 2. That being said, CLGF spending on infrastructure that addresses other section 9(1) requirements by providing services, or that develops and broadens the economic base, or that creates jobs or improves career opportunities, is to be preferred over infrastructure spending that does not; and*
- 3. To enable the purpose of the CLGF to be realised it is necessary to also invest in CLG capacity building, both physical capacity and human capacity, and CLG capability, provided that investment will assist in producing optimal future CLG infrastructure investment decisions, and help improve the overall financial viability of CLGs, particularly through improved asset management.*

The Trust’s recommendation 3 is strongly supported.

Recommendation 3

The Trust recommends that the Minister:

- 1. Continue the CLGF at least at the current level of budget allocation;*

¹¹ WALGA 2011, p24

2. *Build into his considerations that while it is vital to focus on strategic outcomes, there is still a need to continue to address relevant smaller local infrastructure requirements that are valued by CLG communities;*
3. *Taking into account the evidence to the Review and the Trust's findings, consider increasing the CLGF budget allocation; and*
4. *Appropriate CLGF funds for allocation to categories of individual CLGs and groups of CLGs selected and appropriated against defined criteria.*

The Association agrees that the Country Local Government Fund should continue at current or increased levels. In some ways, the many successes of the Country Local Government Fund to date have highlighted the need for the CLGF to continue. A significant infrastructure backlog still exists and there is a lot more the CLGF can achieve in country Western Australia.

The Association strongly supports point 2 of Recommendation 3. There is a continuing need to support individual Local Governments in the provision of infrastructure in their communities.

As the Association argued in its submission to the Issues Paper, "given the extent of the [infrastructure] backlog and the revenue constraints of Local Governments, addressing the infrastructure backlog to restore infrastructure to an appropriate level and to ensure intergenerational equity is a long-term process."¹²

In reference to point 4 of recommendation 3, the Association anticipates that the Local Government sector will be consulted in the determination of criteria for the allocation of funding.

Recommendation 4 is supported.

Recommendation 4

The Trust recommends that no material change in CLGF allocation systems (unless generally welcomed by the sector) occur earlier than 1 July 2013, to allow present CLG budgets plans and projects to be realised.

In some cases, making significant changes to the Fund in time for July 2013 may be difficult if the Department of Regional Development and Lands does not have sufficient resources.

¹² WALGA 2011, p9

What should be funded?

The Association agrees with the Trust's conclusions that infrastructure should be the focus of the Country Local Government Fund, with Local Government capacity building as a secondary objective.

The Association supports the Trust's conclusion that project management and administration costs should be included in the CLGF in the future.¹³

The Association agrees that capital equipment, such as road patching trucks and graders, should be eligible for funding.¹⁴ This should also be extended to other forms of capital equipment such as compactors, mulchers or wood chippers for use at landfill sites or transfer stations. Investment of equipment of this nature would reduce waste to landfill, increase the life of the landfill and reduce potential liabilities under a carbon pricing mechanism.

Recommendation 5

The Trust recommends that by no later than 31 December 2012 in order to be operational by 1 July 2013, in consultation with the CLG sector and taking into account evidence to this Review and the findings of the Trust, RDL settle revised guidelines for both individual CLGs and groups of CLGs, making clear the purpose and priorities of the CLGF, what will be funded, the outcomes that are sought and the conditions that apply.

The Association and the Local Government sector strongly support Recommendation 5. Delays in the release of the guidelines are a major frustration for the sector but it is acknowledged that these types of issues can arise in a significant, recently established grants program like the CLGF.

The Association anticipates that capital equipment, project management and administration costs will be included in future guidelines. It is important that engagement with the sector in the development of the CLGF guidelines continues.

Local Government Amalgamations

The Association conditionally supports recommendation 6.

¹³ WARDT 2012, p196

¹⁴ WARDT 2012, p196

Recommendation 6

The Trust recommends that, by no later than 31 December 2012 in order to be operational by 1 July 2013, and taking into account evidence to this Review and the findings of the Trust, RDL after consultation with DLG and WALGA, review the basis on which CLGF funding will be provided for the amalgamation of selected CLGs, to improve the likelihood of amalgamation occurring.

The Association supports the concept that funding should be available for Local Governments to explore and implement amalgamations. Local Government amalgamations are expensive: systems, processes, policies and workplace cultures from two or more distinct organisations have to be combined. It is appropriate that funding is available for Local Governments who decide, with the backing of their communities, to voluntarily amalgamate.

It is not appropriate, however, for the Country Local Government Fund to be used as a tool to coerce Local Governments to enter into an amalgamation. Decisions regarding amalgamation should not be a determinant for withholding CLGF funding.

The Association fundamentally rejects the Minister for Local Government's position that Local Governments that have not "embraced reform" should not receive CLGF funding.¹⁵ The Association supports the Trust's rejection of the Minister for Local Government's position.

The purpose of the CLGF should not be to support the Department of Local Government's reform program. WALGA is supportive of some capacity building funding being used to assist with voluntary amalgamations; however, capacity building initiatives should be available to *all* Local Governments.

How much money is needed?

The Association supports the Trust's conclusion that the CLGF should continue at least at its current budget allocation.

There is still a significant infrastructure backlog in Western Australia. The Association's Systemic Sustainability Study (SSS) suggested the infrastructure backlog in Western Australia was approximately \$1.75 billion in 2005.¹⁶ The Trust concludes that the infrastructure backlog in Western Australia may prove to be considerably larger than estimated.¹⁷

¹⁵ WARDT 2012, p197

¹⁶ WALGA 2006, p32

¹⁷ WARDT 2012, p199

The Association acknowledges that the estimated backlog of \$1.75 billion may prove to be conservative. The Association argued in its submission to the Issues Paper that improved asset management practices may reveal a greater backlog than previously estimated.¹⁸

The Association supports recommendation 7.

Recommendation 7

The Trust recommends that:

- 1. RDL analyse all FCWPs by 31 December 2012 in order to be operational by 1 July 2013, to ascertain the actual infrastructure status, needs and priorities of each CLG on an asset class basis to help determine CLGF desired outcomes by categories of CLGs; and*
- 2. That RDL develop and publish improved data on the infrastructure backlog in the CLG sector.*

It should be noted that, while Forward Capital Works Plans (FCWP) will provide a picture of Local Government infrastructure priorities, FCWPs will not provide information about Local Government's infrastructure status and needs. This information will be ascertainable from asset management plans.

Further, there needs to be acknowledgement that Local Government's FCWPs are flexible, 'living' documents that may need to be updated and adjusted regularly. Consequently, matching projects to FCWPs should be flexibly applied.

The Association supports recommendation 8.

Recommendation 8

The Trust recommends that RDL in conjunction with RDCo the RDCs and the CLG sector, develop methods for improving CLG leveraging ability.

Leveraging funding for significant projects is important for Local Governments. While not in the control of the Department of Regional Development and Lands, Country Local Government Funding monies should be able to be utilised to attract further State and Commonwealth Government investment via other grant programs. Efforts by the Regional Development Council or RDL to advocate for changes to Government grants programs to this effect would be well received by the sector.

The Association would be willing to assist in this advocacy effort if appropriate.

¹⁸ WALGA 2011, p11

Who should be funded?

The Association supports the Trust's conclusion that Local Governments are the legitimate entities to make decisions about local infrastructure in their communities.¹⁹

Recommendation 9 is strongly supported.

Recommendation 9

The Trust recommends:

- 1. That the CLGF continue to have an individual CLG component and a Group CLG sub-regional and regional component; and,*
- 2. Recommends against the current intention of moving the CLGF to 100% Group CLG funding in 2013-14.*

The Association supports the Trust's conclusion that it is inappropriate for the CLGF to be allocated entirely to groups of Local Governments. Moving away from an arbitrary percentage allocation to a focus on outcomes is supported.

WALGA's formal position is that a minimum of 50 percent of the CLGF allocations should go direct to individual Local Governments.²⁰

Recommendation 10 is partially supported.

Recommendation 10

The Trust recommends:

- 1. That in the interests of regional development the CLGF support targeted capability and capacity-building funding for the CLG sector, with the intention of improving the financial sustainability and operating capacity of those targeted;*
- 2. That such assistance should include supporting the amalgamation of weakly resourced and structured local governments, particularly those rated after assessment as financially unsustainable; and,*
- 3. That RDL in consultation with DLG should report annually on progress and outcomes.*

Point 1 of recommendation 10 is supported. Capability and capacity-building funding to build the financial sustainability and operating capacity of the Local Government sector is extremely important and is supported. Capacity-building programs should be available to all Local Governments.

¹⁹ WARDT 2012, p201

²⁰ WALGA 2011, p18

In relation to point 2 of recommendation 10, the Association supports funding for the exploration and implementation of voluntary amalgamations. The Association does not support the CLGF being used to pressure Local Governments to amalgamate based on a rating system.

The decision to enter into an amalgamation should be made by the Local Government concerned, in consultation with their community, following a thorough cost-benefit analysis.

CLGF funding should not be contingent on a Local Government entering into an amalgamation determined to be a good idea by a State Government department.

Given that part 2 of recommendation 10 is not supported, part 3 is not supported.

Aboriginal Communities

The Association has concerns with recommendation 11.

Recommendation 11

The Trust recommends that the Minister, noting the ongoing Commonwealth–State negotiations on the matter of adequate funding for the provision of local government services in remote Aboriginal communities and CLG concerns thereto, request advice from the State’s Aboriginal Affairs Coordination Committee on consequential infrastructure capability and capacity matters affecting CLGs, that might need to be taken into account in future CLGF policy.

While it may be appropriate for the Minister to request information from the Aboriginal Affairs Coordination Committee, it is not appropriate for the CLGF to be used to bring Local Government infrastructure up to standard prior to handover to Local Government. Infrastructure in Aboriginal Communities must be upgraded to an appropriate standard with State and Commonwealth funding prior to handover to Local Government.

Once the infrastructure is at an appropriate standard, and under Local Government control, a Council would be able to decide to allocate CLGF funding to infrastructure in Aboriginal Communities.

How should they be funded?

The Association supports the Trust's view that there ought to be greater certainty of funding for Local Governments.²¹ The Association also agrees with the Trust's argument that the CLGF process should be streamlined.²²

Recommendation 12 is partially supported.

Recommendation 12

The Trust recommends:

- 1. That by 31 December 2012 in order to be operational by 1 July 2013, the CLGF be distributed through two funding pools, one of which is allocated to qualifying grantees who will be rated prior to allocation as entitled to receive funding; and one of which is a contestable grants pool to which applications may be made by potential grantees rated as eligible;*
- 2. That the CLGF funding quantum determined by the Minister and Cabinet be informed by the evidence to the Review and the findings of the Trust, and in particular by the sum of the recommendations in the Review;*
- 3. That by 31 December 2012 in order to be operational by 1 July 2013, that all CLGs should be able to be rated on prospects, capability, capacity and risk, which rating shall identify those qualifying or not qualifying for the various categories of the two CLGF funding pools; and, that rating should be done on a publicly defensible professional basis; and*
- 4. That taking into account evidence to the Review and the findings of the Trust, the required CLG rating systems are to be agreed by a committee which shall take professional input and advice as required; and, the committee should be chaired by RDCo and include but not necessarily be limited to representatives of RDL, DLG, WAPC/DoP and WALGA.*

The Association supports the addition of a contestable component to the Country Local Government Fund. The Association contends that the majority of the CLGF (approximately 70-80 percent) should be non-contestable. The remaining contestable component should be allocated primarily to significant regional projects assessed on a project-by-project basis.

The Association argues that *all* country Local Governments should be entitled to apply to receive funding through the contestable component of the CLGF. Contestable grants should be assessed on a project-by-project basis. It may be appropriate for Local Government capacity, capability and risk to be included in the assessment process, but

²¹ WARDT 2012, p208

²² WARDT 2012, p208

projects should not be excluded from receiving contestable funding before an assessment on the *project* is undertaken. The principle of project-by-project assessment is particularly relevant if an application is received for a significant regional project from a consortium of Local Governments.

In relation to point 3 of recommendation 12, the Association has serious concerns with Local Government prospects, capability, capacity and risk being rated by a State Government department.

The Association does not support the proposed outcome of the rating system. Point 3 of Recommendation 12 suggests that an unacceptable rating should lead to exclusion from the CLGF. The Association argues that a low rating should lead to additional support, not exclusion from the Fund. Exclusion from the CLGF is likely to reduce the funding available to Local Governments most in need of funding and support. While this may make administration of the CLGF simpler, it will not lead to beneficial outcomes on a state-wide basis.

The Association does not support the Department of Local Government undertaking the role of assessing Local Governments. Given the Minister for Local Government's stated policy position of reducing the number of Local Governments in Western Australia, the DLG would be inherently conflicted if asked to undertake this task.

If the Government persists with the development of a rating system, it is appropriate for WALGA and the Local Government sector to be involved in the design of the rating methodology.

The Association strongly supports recommendation 13.

Recommendation 13

The Trust recommends:

- 1. That RDL investigate the feasibility of CLGF funding from 1 July 2013 not being on a budget-year basis but on a project-time basis, so that such issues as the northern wet season affecting project delivery, or trying to force longer time-scale projects into a financial year framework, fall away; and*
- 2. That, subject to the feasibility study being positive and the Minister agreeing to RDL's proposals, that the CLGF operate on this funding system from 1 July 2013.*

Who makes decisions on what basis?

The Association supports the Trust's view that Councils, as the democratically elected representatives of the community, are the legitimate entity to make decisions regarding Local Government infrastructure.

The principle of 'subsidiarity' should be supported and embraced whenever and wherever possible. The Association supports the Trust in this conclusion.

Role of the Regional Development Commissions

During the life of the Country Local Government Fund, there has been confusion regarding the role and involvement of Regional Development Commissions (RDC).

The Association supports the Trust's view that the role of RDCs and the Regional Development Council needs clarification. Consequently, recommendation 14 is supported.

Recommendation 14

The Trust recommends that RDL and RDCo assess the relevant evidence and findings of this Review, and determine for the Minister's approval by no later than 31 December 2012 in order to be operational by 1 July 2013, the manner in which the RDCs role in the CLGF can be adjusted to facilitate and maximise CLGF outcomes.

There may be a role for the RDCs in the administration of the Country Local Government Fund, but the involvement of the RDCs should be subject to clear parameters.

In line with the Association's submission to the Issues Paper, Regional Development Commissions should not have any decision-making role in the CLGF. Their role should be limited to:

- Facilitation of regional project selection
- Assistance with guidelines, acquittals and the CLGF process, and
- Help with utilisation of the CLGF to leverage other funding sources.

The Association argued, in its 2010 submission to the Review of the Regional Development Commissions, that RDCs should break down State Government silos, ensure a whole-of-government approach to regional development and hold Government departments and agencies accountable for their decisions.²³ These functions would

²³ WALGA 2010, p5

assist Local Governments, either individually or in contiguous groups, in optimising CLGF outcomes.

Risk Rating

Recommendation 15, relating to rating Local Governments in terms of risk, is not supported.

Recommendation 15

The Trust recommends that by no later than 31 December 2012 in order to be operational by no later than 1 July 2013, RDL introduce a CLG risk rating system for its CLGF grantees, so that:

- 1. Higher risk grantees might be assessed and thereafter a judgement made as to whether they should be excluded from the CLGF, so helping protect the integrity of the Fund; and*
- 2. Reduced governance requirements and compliance costs for both RDL and the grantees can thereafter be applied for those rated lower risk.*

There may be some merit in the development of a risk rating system for CLGF grantees. For example, a risk rating system as a part of a capacity building program that aims to build the risk management capacity of Local Governments would be supported.

The conclusion, encapsulated in point 1 of Recommendation 15, that Local Governments may be excluded from the fund as a result of a high risk rating is rejected. Such a system would most likely exclude Local Governments from the CLGF most in need of funding and capacity building support.

The conclusion from the risk rating system should be that Local Governments rated as higher risk receive additional support to build their internal risk management capacity.

Should a risk rating system be implemented, the Trust suggests that WALGA or the Department of Local Government would be best placed to undertake the risk rating assessments.²⁴ The Association argues that risk assessments should be undertaken by an independent body, possibly from the private sector, in consultation with WALGA.

The Department of Local Government should not be involved in the risk assessment process due to a significant inherent conflict of interest. As the Trust outlined in its report, the policy position of the Minister for Local Government is that the CLGF should be used as a tool to coerce Local Governments into amalgamations.²⁵ There would be

²⁴ WARDT 2012, p215

²⁵ WARDT 2012, p66, 79-80, 159 and 197

little credibility or acceptance of risk ratings undertaken by the DLG. There would be an overwhelming perception that the risk ratings were manipulated to pursue the Minister for Local Government's policy objective of fewer Local Governments.

Prospects Rating

The Association does not support recommendation 16 in its current form.

Recommendation 16

The Trust recommends that by no later than 31 December 2012 in order to be operational by no later than 1 July 2013, RDL take into account the CLG prospects-assessment for its CLGF grantees, in order that the quantum and destination of CLGF grants can be better directed for optimal regional development outcomes.

While it may be appropriate for regional development prospects to be a factor in the distribution of contestable CLGF funding, prospects should be considered on a project-by-project basis.

A sophisticated methodology would need to be developed for regional development prospects to play a significant role in the determination of CLGF allocations. The methodology would need to include current and projected population, employment, including transient workforces, economic growth and a range of other factors.

In regions where regional development prospects are relatively low, it may be appropriate for the CLGF to focus on replacement and renewal of existing infrastructure. In regions where regional development prospects are relatively high, due to high levels of mining investment or other factors, a focus on new infrastructure may be more appropriate.

What will deliver the best outcomes?

The Association strongly supports recommendation 17.

Recommendation 17

The Trust recommends that taking into account the evidence and findings of the Review, that RDL reassess the outcomes sought, and the resourcing, administrative structure, and operational systems of the CLGF, including greater engagement with CLGs by administrators and decision-makers on the ground; and report its recommendations to the Minister for approval by no later than 30 June 2012.

The Association supports the Trust's view that more on-the-ground engagement with Local Governments in the administration of the CLGF would be beneficial.²⁶ The Association has been advocating for administration of the CLGF to include 'case-manager' roles. WALGA would be in a position to assist with the administration of the CLGF in this way on behalf of RDL should funding be made available for this purpose.

The Association supports recommendation 18.

Recommendation 18

The Trust recommends

1. *That to facilitate CLGF investment that is strategic and prioritised, and to fulfil the purposes of the Act, from not later than 31 December 2012 in order to be operational by 1 July 2013, CLGF spending should be outcomes-based;*
2. *That taking into account the findings of the EAC, evidence to the Review, and the findings of the Trust, RDL must establish the principles methodology and operational systems for making CLGF projects and programs outcomes-based; and,*
3. *That from no later than 1 July 2013, the Minister require as a condition of grant that CLGF grantees comply with relevant outcomes required by the Act, expanded where applicable by specific outcomes expressed in the CLGF guidelines, and where applicable specific outcomes by program or project or in the FAA; and that wherever practicable and relevant the outcomes achieved shall be measured and reported.*

The Association supports the Trust's view that the CLGF should be focussed primarily on outcomes. Given significant amounts of public money are being spent, outcomes need to be demonstrated at a local, regional and state-wide level. Local communities should be entitled to expect the CLGF to deliver tangible benefits at the community level. Likewise, the State Government should expect to see demonstrable benefits across Western Australia.

The Association supports recommendation 19.

Recommendation 19

The Trust recommends that by no later than 31 December 2012 in order to be operational by 1 July 2013, RDL in consultation with DLG and the CLG sector and taking into account evidence to this Review and the findings of the Trust, develop a practical means for collecting and reporting the necessary data while

²⁶ WARDT 2012, p229-231

minimising compliance costs, so that benchmarks for CLGF infrastructure and capacity-building can be set, against which the results of CLGF investment can be measured.

It is crucial that the sector is thoroughly engaged in the development of benchmarks.

Recommendation 20 is strongly supported.

Recommendation 20

The Trust recommends that RDL, taking into account evidence to the Review and the Trust's findings, further consult with local government to identify opportunities to refine streamline and simplify current CLGF reporting processes on a preferred 'report once' basis wherever possible, but which ensures relevant information can still be captured and reported, and that necessary accountability is not compromised.

A key concern of the sector, in relation to the CLGF, has been a tendency for the program to be 'over-governed'. Efforts to streamline and simplify the CLGF administrative and reporting processes are strongly supported by the Local Government sector and the Association.

Recommendation 21 is supported.

Recommendation 21

The Trust recommends that in the context of evidence to the CLGF Review and the Trust's findings, RDL review the outcomes sought and the resources needed for a better information flow to and from the CLGF with respect to three issues: communication by RDL to stakeholders; a response protocol or system to issues raised by stakeholders; and an automatic web-based information system.

The Association supports recommendation 22.

Recommendation 22

The Trust recommends that RDL, taking into account evidence to the Review and the Trust's findings, assess the Commonwealth Roads to Recovery website and administrative system with a view to using desirable features of that system to improve the CLGF, but without compromising the administrative outcomes required for the CLGF.

The Roads to Recovery systems were put forward by the Local Government sector as a model that could be used to improve the CLGF in submissions to the Issues Paper.

Capacity Building

The Association supports recommendation 23.

Recommendation 23

The Trust recommends that the Minister, in the interests of CLG capacity-building:

- 1. Require RDL to have discussions with DLG and WALGA and whomever else thought appropriate, on the matter of standardising accounting systems for local government, with a view to determining if such a project should proceed, with what timelines, and on what basis; and*
- 2. If a decision to proceed is made, to agree on the funding and methodology for a scoping and consultation exercise, including consideration of the suitability of the Local Government Accounting Manual, software, hardware, network connectivity and workforce upskilling; and subsequently, if standardisation is found feasible and desirable, for the implementation of a standard system for the local government sector.*

The principle of standard accounting systems for the Local Government sector is supported. The Association contends that it is the entity best placed to develop and implement a standardised accounting system on behalf of Local Governments if capacity building funding is available for this purpose. The successful implementation of ROMAN II, the primary Local Government asset management system, demonstrates the ability of WALGA to develop and implement a wide-scale software package.

Recommendation 24 is supported.

Recommendation 24

The Trust recommends that the Minister, in the interests of CLG capacity-building:

- 1. Taking into account evidence to the Review and the Trust's findings, examine whether additional CLGF investment in housing and amenity for particular CLG permanent staff is warranted, particularly in locations remote from regional or metropolitan centres; and,*
- 2. Task the RforR Directors General Reference Group, taking into account evidence to this Review and the Trust's findings, to explore options for staff attraction and retention across the CLG sector, particularly as they relate to the more remote areas of the State, including but not limited to housing, amenity, family and social requirements, professional development, special allowances and incentives.*

The Association contends that WALGA, the LGMA and the Local Government sector should be consulted in relation to this issue.

Recommendation 25 is supported.

Recommendation 25

The Trust recommends that the Minister require RDL to engage with DLG and WALGA to ensure that CLG asset management, depreciation systems, and forward capital works plans are integrated or harmonised as systems in the most practical, efficient and useable manner.

The Association supports recommendation 26.

Recommendation 26

The Trust recommends:

- 1. That the Minister for Local Government review the Local Government Act 1995 to determine whether the provisions governing the auditing of local government could or should be enhanced; and*
- 2. That until the DLG review of the audit provisions of the Local Government Act 1995 is completed, RDL work with DLG to examine options for and a process for increasing the consistency and general alignment of local government audit practices and grantee audit requirements with the existing audit provisions of the Local Government Act 1995.*

Changes to the audit provisions in the *Local Government Act 1995* should focus on increasing efficiency, not increasing compliance. The Local Government sector and WALGA should be consulted in relation to changes to the audit provisions.

Conclusion

The Association appreciates the opportunity to contribute to the thorough and consultative Review of the Royalties for Regions Country Local Government Fund undertaken by the Western Australian Regional Development Trust.

The Association supports continuation of the CLGF at current or increased levels. The Association agrees with the Trust that Local Governments are the appropriate decision-makers for determining infrastructure spending priorities in their communities.

The primary focus of the CLGF should be Local Government infrastructure. Capacity building in the Local Government sector should be a secondary objective.

A significant infrastructure backlog still exists in rural Western Australia. There is still a requirement for local infrastructure to be funded as part of the Country Local Government Fund.

The Association does not support the use of the Country Local Government Fund as a tool to coerce Local Governments into an amalgamation process. The decision to enter into an amalgamation should be made by each respective Council in consultation with their community. Withholding CLGF monies from Local Governments who decide not to enter into an amalgamation is not appropriate and is not supported. Funding for Local Governments to explore and then implement a voluntary amalgamation process is supported.

Diversion of the Country Local Government Fund to upgrade infrastructure in Aboriginal Communities prior to handover to Local Governments is not supported. The infrastructure in Aboriginal Communities should be upgraded by the State and Commonwealth Governments prior to handover to Local Governments.

A system that ascribes a rating to Local Governments in relation to capability, capacity, risk and prospects is not supported. Further, if a rating system is established, the outcome of the rating system should be targeted capacity building support, not exclusion from the CLGF. Exclusion, in the manner proposed, would most likely reduce funding to Local Governments most in need.

The Association supports greater clarification of the role of Regional Development Commissions in the CLGF process. The role of RDCs should be limited to facilitation of regional project selection, assistance with the process and help in leveraging other funding sources.

The Association supports the Trust's recommendations to streamline the CLGF process and the recommendation for the Department of Regional Development and Lands to undertake on-the-ground engagement with Local Governments.

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