



WALGA

**Interim Submission
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**Productivity Commission's Review of the Not for
Profit Sector**

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EXECUTIVE SUMMARY

Local governments view community development as a process for engaging communities in policy making, planning, program development and program delivery. Building the capacity of the community sector is considered integral to this process. According to Pugh and Siggers (2007), it is generally agreed that Local Government's role in community development is compromised by the poor state of social planning and having to deal with multiple government agencies that do not seem to act coherently in a planned fashion. Local Government is seen as well placed to bring together all levels of government, NGOs and private sector organisations for integrated social planning around overall outcomes for the community.¹

Local Government are important contributors to local community groups through the provision of infrastructure and coordination of local service delivery. One of the challenges faced by Local Government is the need to maintain a large infrastructure asset base and an increasing demand for improved quality of existing services and expectations for new services. The current funding mechanisms available to Local Government were not designed to meet the financial burden of infrastructure renewal.

BACKGROUND

The Western Australian Local Government Association (WALGA) 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 139 Local Governments in Western Australia, plus the Christmas Island and Cocos (Keeling) Island Councils.

The Association provides an essential voice for almost 1,400 elected members and over 12,000 employees of the Local Governments in Western Australia. The Association also provides professional advice and offers services that deliver financial benefits to Local Governments and the communities they serve.

The *Local Government Act 1995* and other Acts of State Parliament confer specific powers upon local government. Part 3 of the *Local Government Act (1995)* describes the general, legislative and executive functions of Local Government. Section 3.1 (1) states: *The general function of a local government is to provide for the good government of persons in its district.*²

The Act states:

1. *A local government is to administer its local laws and may do all other things that are necessary or convenient to be done for, or in connection with, performing its functions under this act.*
2. *In performing its executive function a local government may provide services and facilities.*

¹ Dr Judith Pugh and Professor Sherry Siggers, 30 November 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, pp. 2-3. Available from:

http://www.walga.asn.au/about/policy/community_development/current-emerging-issues

² Information on the functions of Local Government is taken from Western Australian Local Government Association (WALGA), 2002, *Introduction to the Local Government Act*, Perth.

Before proceeding with a service or facility, Local Government must apply three tests that are listed in sub-section of the same section;

1. *A local government must satisfy itself that services and facilities that it provides-*
 - (a) *integrate and coordinate, so far as practicable, with any provided by the Commonwealth, the State or any public body;*
 - (b) *do not duplicate, to an extent that the local government considers inappropriate, services or facilities provided by the Commonwealth, the State or any other body or person, whether public or private; and*
 - (c) *are managed efficiently and effectively.*³

Whilst the constitutional status of Local Government places some constraints on Councils to determine their policy stances in relation to legislative functions, there does exist scope for choice.

The capacity for local government to undertake these functions means that each Council can determine areas and activities that it would like to undertake according to these criteria. However, councils must not duplicate the role of State or Commonwealth government, and services should be coordinated with other spheres of government.

Local Government in Western Australia is facing a number of financial constraints, identified both at the national, state and local level. These must be taken into consideration with the development and implementation of Australian and State policy positions by Local Government.

The capacity constraints facing Local Government in Western Australia are symptomatic of the issues facing the Local Government Sector nationally. At a national level, The House of Representatives Standing Committee on Economics, Finance and Public Administration Report, *Rates and Taxes: A Fair Share for Responsible Local Government* (the Hawker Report) found that escalating costs and constrained funding along with growing community expectations and a funding gap threatens the future of an efficient and responsive Local Government.⁴

As part of the Australian Government response to the Hawker Report, the Productivity Commission was asked to examine the capacity of Local Government to raise revenue from their own sources. The draft report, *Assessing Local Government Revenue Raising Capacity*, indicates that despite calls for increased funding from the Australian and State Governments, most Local Governments appear to have some limited capacity to raise more revenue if they and their communities wished to do so. More importantly, the findings outlined in the final report *Local Government Revenue-Raising Capacity* qualifies these concerns highlighting that a significant number of Councils, particularly in rural (87 per cent) and remote (95 per cent) areas, would remain dependent on grants from other spheres of government to meet their current expenditure (Finding 5.5).

Local governments view community development as a process for engaging communities in policy making, planning, program development and program delivery. Building the capacity of the

³ Western Australian State Government. *Local Government Act 1995*. 3.18 Subsection (3).

⁴ Australian Government House of Representatives Standing Committee on Economics, Finance and Public Administration, 2003, *Rates and Taxes: A Fair Share for Responsible Local Government*, Canberra, p. 11.

community sector is considered integral to this process. According to Pugh and Saggars (2007), it is generally agreed that Local Government's role in community development is compromised by the poor state of social planning and having to deal with multiple government agencies that do not seem to act coherently in a planned fashion. Local Government is seen as well placed to bring together all levels of government, NGOs and private sector organisations for integrated social planning around overall outcomes for the community.⁵

The model preferred by Local Government of the relationship between Local Government and the community sectors is a negotiated model, which situates Local Government centrally. Local Government, in this model, would represent communities and interact with communities in a non-hierarchical way. It would also interact with state and federal governments in a shared and negotiated fashion. The NGO and private sectors would interact with all levels of government in this preferred model. For this preferred Local Government model to come into effect, though, there has to be a change to the existing conditions in which Local Government's power to exist rests constitutionally with the state (power model) and is impacted by the direct investment of the Federal government in Local Government (revenue model) either through subsidies or a revenue stream to Local Government.⁶

The *National Agenda for the National General Assembly of Local Government* outlines its support for intergovernmental reform to 'strengthen its position as the third sphere of government and its relationship with Commonwealth and state/territory governments'. It seeks parity in partnerships between Commonwealth, state and territory governments and Local Government and clarification of the roles and responsibilities of the three levels of government.⁷

Due to the short timeframe to comment on the consultation paper, it has not been possible to fully consult with Member Councils, and so an interim submission is made. With this in mind, our submission seeks to anticipate potential problems that could occur.

INFRASTRUCTURE

The Productivity Commission Issues' Paper identifies that Local Government are important contributors to local community groups through the provision of infrastructure and coordination of local service delivery. Examples include the provision of facilities for arts groups, youth services, and access to community halls and centres. There is a need to know what not-for-profit requirements are into the future for planning Local Government infrastructure and support that can be provided to this.

One of the challenges faced by Local Government is the need to maintain a large infrastructure asset base and an increasing demand for improved quality of existing services and expectations for new services. There currently exists an estimated \$2 billion backlog in the renewal of key economic and

⁵ Pugh and Saggars, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, pp. 2-3.

⁶ Wayne Scheggia, 16 May 2007, in Pugh and Saggars, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, p. 53.

⁷ Australian Local Government Association, 2006, *National Agenda for the National General Assembly of Local Government*, p. 5; 35.

social infrastructure under the control of Local Governments in Western Australia.⁸ Fundamentally, the infrastructure problems facing Local Government arises because it does not have access to funding that is sufficient to build, maintain and replace the infrastructure for which it is responsible.

The current funding mechanisms available to Local Government were not designed to meet the financial burden of infrastructure renewal. As a result, Local Government has inadequate revenue to, among other things, redress past maintenance and renewals deferrals let alone in future fully fund maintenance and renewals requirements as they fall due. These challenges place ongoing pressure on existing Local Government revenue sources and increase the need to identify new revenue opportunities.

Currently, Local Government revenue can be categorised into four main sources being:

1. rates
2. fees and charges
3. grants and contributions
4. profit from business enterprise.

The current funding mechanisms available to Local Government were not designed to meet the financial burden of infrastructure renewal. As a result of the vertical fiscal imbalance, Local Government has inadequate revenue to, among other things, redress past maintenance and renewals deferrals let alone in future, fully fund maintenance and renewals requirements as they fall due. While the Regional and Local Community Infrastructure Program (RLCIP) has been welcomed by the sector, recognition of the need for major renewal to ensure sustainable infrastructure and facilities is needed.

As the Issues Paper identifies that Local Government's largest contribution to the not-for-profit sector is through the provision of infrastructure, consideration to the constraints faced by the sector must be noted.

Recommendations

The infrastructure needs of not-for-profits needs to be reviewed and quantified to ensure appropriate funding support is provided and accounted for.

That there is an increase in the planning of asset management and lifecycle costings for program delivery that requires infrastructure.

ACCESS TO FINANCIAL RESOURCES

Local governments face similar constraints to the not-for-profit sector in gaining access to the quantity and quality of financial resources they require. A 2007 study in *Cross Sectoral Frameworks for Community Development in Western Australia* suggested that traditionally, the charitable,

⁸ Western Australian Local Government Association (WALGA), 15 October 2008, Submission to Infrastructure Australia.

community-funded NGOs have been undervalued and their work is not adequately recognised or valued.⁹ The paper suggests that although Local Government is regarded by the State Government as an NGO, the charitable, community-funded NGOs view it as government rather than sitting within charitable, community-funded NGO territory, and if anything, NGOs view Local Government as a competitor because they can access funding that NGOs can't. Local Government on the other hand, can feel disadvantaged because they are neither a public benevolent institution nor a charity.¹⁰

Particularly in cases of community development and program funding, local governments are often in competition with not-for-profits. This situation is not particularly beneficial to either party, and could be seen to inhibit the range of programs and services which are delivered to the community. One respondent interviewed to the Cross Sectoral Frameworks paper summarised the issue well:

*So while local government isn't incorporated and can't access some forms of state government funding, it can and does compete with NGOs for other funding sources. So it does a wide range of community services (as does for-profit business) and competes for state and federal government funding alongside the NGO and commercial business. It also has access to some state funding... only available to local government service providers and not NGOs... Local government also has access to community resources and facilities and controls access to these to NGOs and business. Local government also competes – as does state government – for the philanthropic dollar from business – alongside the traditional charitable, community-funded Incorporated organisation.*¹¹

As an indicator, the percentage of revenue for Western Australia local governments for 2006 to 2008 is as follows:

For 2006/07

Commonwealth Grants \$247m
State Grants \$135m (almost all under the road funding agreement)
Total Grants \$382m
Total Local Government Revenue \$2,303m

Therefore grants accounted for 16.5% of total revenue

(Source: WA State Government Budget Reports and ABS Cat No 5512.0)

For 2007/08

Total Grants (cashflow basis) \$447m (including \$208m operating grants)
Total Revenue (cashflow basis) \$2,514m

Therefore grants accounted for 17.8% of total revenue

(Source ABS Cat No 5512.0)

⁹ Zane D'Mello, 7 May 2007, in Pugh and Siggers, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, p. 51.

¹⁰ Pugh and Siggers, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, p. 51.

¹¹ Lucy Morris, 24 October 2007 in Pugh and Siggers, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, p. 52.

The 2007 study in *Cross Sectoral Frameworks for Community Development in Western Australia* suggested that non-government organisations relied greatly on state and federal funding, but not all of their organisations had a relationship with Local Government. This created a problem with state and federal government's tendency not to spread service contracts for various human services out across large numbers of NGOs as this requires extra work on the part of government departments.¹² Examples of current subsidisation of services include Local Government service delivery to Aboriginal communities, and the provision of Home and Community Care (HACC) services by local governments and the not-for-profit sector.

WALGA, in conjunction with the Premier's Physical Activity Taskforce (PATF), through a Lotterywest grant, offered matched grants for local governments under the Local Activity Grants Program. These grants are designed to encourage new and innovative approaches to increasing physical activity. Since 2003, the Local Activity Grants Program has distributed over \$1.7 million through 9 funding rounds to 142 projects across 104 Councils. The model used for this grants program is one that could be considered for future funding opportunities.

A further issue which needs consideration for the not-for-profit sector is the sustainability of Local Government services and support. Local governments currently provide a number of benefits to charitable organisations and not-for-profit groups including charitable rating and peppercorn rentals.

The circumstances surrounding the issue of charitable rating are well-documented in Western Australia. Local Government in WA forego rate revenue upward of \$6.5 million per annum for land used for charitable purposes. While it is understood that in some circumstances the associated land use is indeed purely of a charitable nature, there is increasing call upon Local Government to exempt land owned and operated by charities for Independent Living Units (ILUs) and public housing properties transferred by the Department of Housing for management by charitable bodies.

There is increasing pressure placed on local governments to exempt from rates, all land utilised by a charitable body, regardless of the function. Should a Local Government determine the land use is not for charitable purposes, the charitable organisation turns to the State Administrative Tribunal (SAT) for a ruling, thus imposing resourcing costs and potential appeal expenses upon the Local Government.

There is also the potential future threat to Local Government rate revenue should the Federal Government's National Rental Affordability Scheme include incentives to encourage increased participation by charitable organisations in providing affordable rental accommodation. Further to this, the WA Department of Housing has implemented a new policy which anticipates that by the end of 09/10, registered first and second tier providers will be managing more than half of the State's total Community Housing stock – almost 3,500 units. It is planned that 75% of houses constructed under the Commonwealth and State's investment in social housing will be controlled and/or owned by NFPs under the WA State Government's Community Housing Strategy. The consequences of increased ownership by charities in the rental property sector, in the current State legislative climate, will expand the quantity of foregone rate revenue and increase the financial burden on local governments to provide services to rental occupants residing in rate-exempted properties.

¹² Pugh and Sagers, 2007, *Cross Sectoral Frameworks for Community Development in Western Australia*, p. 19.

While Local Government will continue to provide facilities and support for not-for-profit organisations, in recognition of their valuable contribution to the community, there is a need to balance the building of social capital with economic realities.

Recommendations

That clarification is sought on the funding eligibility of not-for-profit organisations, and defines the intent of funding as supportive or for service delivery.

That whole of life cycle costings are undertaken to ensure the sustainability of program and service delivery by the not-for-profit sector to the community.

VOLUNTEERS

The annual value of volunteering in WA is \$1.7 billion, according to the Australian Bureau of Statistics. Although demand for volunteers has greatly increased over the last few years, total volunteer hours have decreased even though numbers of individual volunteers have increased. The top six areas of sectors of decline in volunteer participation are aged care, health, community/welfare, sport/recreation, education/training and parenting/children/youth.

Volunteers put their communities first, themselves second. Volunteer WA research suggests that almost all volunteers (88%) incur out of pocket expenses that are not reimbursed. These average \$600 per year per individual. Research shows 1 in 10 (10.6%) people have reduced or even ended their volunteering over the last 12 months because of the expense.

This is likely to worsen with the current global economy which will have significant impacts on our communities. WALGA believes there are opportunities to work with Local Government to develop volunteer recruitment and retention strategies and would welcome the opportunity to explore this further, as there are many examples of innovative partnerships and programs throughout the State.

CONCLUSION

This paper has attempted to outline the broad issues affecting the intersections between the Local Government and Not-for-Profit sectors including infrastructure, funding arrangements, and volunteerism. The development of a model which clarifies the relationship between the two sectors would be welcome, and would assist in clarifying service delivery and funding options.

To ensure the long-term sustainability of service and program delivery to the community, whole-of-life-cycle costings must be undertaken to ensure that adequate funding is provided and accounted for.