

**STANDING COMMITTEE ON PUBLIC ADMINISTRATION AND  
FINANCE**

**LOCAL GOVERNMENT RATING SYSTEM  
AND DISTRIBUTION OF FUNDS**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT PERTH  
ON MONDAY, 5 APRIL 2004**

**Members**

**Hon Ed Dermer (Convenor)  
Hon Murray Criddle  
Hon Robin Chapple (substitute for Hon Dee Margetts)  
Hon Dee Margetts (participating member)**

**Committee met at 10.40 am**

**HADLOW, MR RAY**  
**Director, Mansell Pty Ltd,**  
**6 Croydon Avenue,**  
**Yokine, examined:**

**The DEPUTY CHAIRMAN (Hon Ed Dermer):** Good morning, thank you for joining us. I have a number of preliminary matters to go through. On behalf of the committee, welcome to the meeting. I apologise for the formal necessities of this hearing. Have you signed a document entitled "Information for Witnesses"?

**Mr Hadlow:** That is correct.

**The DEPUTY CHAIRMAN:** Have you read and understood the meaning of the document?

**Mr Hadlow:** Yes.

**The DEPUTY CHAIRMAN:** These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of the hearing for the record. Please be aware also of the microphone and try to speak into it and ensure you do not cover the microphone with papers, and I will make sure I do the same while holding this paper.

I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session. That would follow the open session. If the committee grants that request, any public or media in attendance will be excluded from the hearing. We have not drawn a great deal of public and media attention so far. Please note that until such time as your transcript of the public evidence is finalised it should not be made public. I advise you that premature publication or disclosure of public evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege. I invite you to make an opening statement if you would like.

**Mr Hadlow:** I have been invited along to address the committee. I will probably seek guidance on just what you would like me to address at this stage. To give you some background in case you do not have it, my past experience is 24 years working in local government, finishing at the City of Kalgoorlie-Boulder as the CEO and, for the past 13 or 14 years, I have been doing consulting work to local government specialising in the grants commission area and the allocation of grants to local governments. I guess I am in your hands as to what you would like me to tell you.

**The DEPUTY CHAIRMAN:** Thank you for forwarding to us the briefing note on the operation of the Western Australian Local Government Grants Commission. That is very helpful. It might be a good place to start if you gave us an overview of how the Western Australian Local Government Grants Commission determines the allocation of funding across the various local authorities in the State.

**Mr Hadlow:** Will someone from the grants commission be invited to address you officially?

**The DEPUTY CHAIRMAN:** In the course of time. We thought it would be helpful to start with you. We understand you are very capable of making things clear, and we would appreciate that.

**Mr Hadlow:** It is not a problem; I wanted to make sure you were getting the official version. Obviously, I come from a different area. The Western Australian Local Government Grants

Commission is a body of five people responsible for allocating federal government grant funds to local governments in WA. It allocates a grant to every local government regardless, if you like, of its need in many ways. I will address that in a minute. It is also contracted by the Commonwealth to calculate the grants for the two Indian Ocean Territories, Cocos Island and Christmas Island. The same methodology is used. Basically, it is established under state legislation to operate under commonwealth legislation to allocate funding to local governments. This year it was approximately \$173.5 million. Money comes to the grants commission in WA in basically two parcels: one for what is known as equalisation - I will address that in a moment - and the other is for an identified local road grant. The two are split because the moneys are allocated between the States and the Territories using two different methods. The equalisation is basically on a straight population basis. The road component is on a weighted population basis, as I understand it. I do not know the full method of calculating that, although I am told the actual formula has been lost but everyone still agrees on the break and it favours WA. It is best that it stay that way.

**The DEPUTY CHAIRMAN:** We are trying to imagine the formula being lost somewhere.

**Mr Hadlow:** I gather it goes back a long way. I understand that no-one can find out how it was actually calculated. Nonetheless, it is on a weighted road basis and because WA has such a huge road system and small population, it obviously benefits WA significantly.

Although the money is in two components it is totally untied. It makes no difference to its rating cut when the local government gets the money. It is not for any specific purpose. Councils do not have to use it or account for it other than within the normal accounting regulations.

**The DEPUTY CHAIRMAN:** When you say it is untied, are you referring to the equalisation funds or both?

**Mr Hadlow:** Both.

**The DEPUTY CHAIRMAN:** So, could a council receive funds for roads and use it for libraries, for instance?

**Mr Hadlow:** Most definitely. I doubt there is a council that does not believe - I say believe - that it spends the road grant on roads. If, for instance, it had a major project to build a new town hall or something, and wanted bridging finance, it could use that money to do that and catch up with the roads the following year. It would be the council's decision. It would not be penalised or rewarded for doing such. If you were to ask councils, most would think the road component had to be spent on roads, but it is not so. I am told a couple of pools are taken out of that for Aboriginal access roads and bridges. Technically, that is untied also. The carrot is that they do not get the other two-thirds of the money from the State unless they spend their money. Technically, if the council wanted to use that money elsewhere, it could.

**Hon ROBIN CHAPPLE:** Is that the only area in which there is a payment from the State that is responsive to a grant?

**Mr Hadlow:** From the Commonwealth's money?

**Hon ROBIN CHAPPLE:** Yes.

**Mr Hadlow:** I think so. I do not get involved in that area. As far as I am aware, it is matched.

**Hon ROBIN CHAPPLE:** Is there no other matching component from a state perspective on a road fund or whatever?

**Mr Hadlow:** There can be, remembering that the money is totally untied. A council can undertake something and attract funds. Let us say there is a recreation project in which it is required to put in one-third of the funds. It could use any of this money for its one-third. It would not usually show in its accounts that it came from that source. When these funds are shown in a council's accounts, they are shown in the same statement as their rates. They are not shown under any program within their accounts. It is in general purpose income, which is where the rates go.

**The DEPUTY CHAIRMAN:** You have made that very clear. Thank you for that.

[10.50 am]

**Hon DEE MARGETTS:** I am sorry, I missed the first part of your presentation, but, as you know, Ray, I have sat in on a couple of grants commission hearings. For how many shires across the State do you do consultancy work?

**Mr Hadlow:** I guess for a third to a half over a four-year cyclic program. Some only engage me when they have a hearing, which is every four years generally, except for the Indian Ocean Territories, for some reason, which is intriguing!

**Hon DEE MARGETTS:** Yes!

**Mr Hadlow:** I guess that is the sort of frequency. The work varies from just checking a return to doing the odd appraisal and holding their hand at a hearing.

**The DEPUTY CHAIRMAN:** I wonder whether you could help us with your insights on the factors that are used in assessing the revenue-raising ability and the expenditure and disability factors for the various local government authorities.

**Mr Hadlow:** Okay. Do you want to know how they work?

**The DEPUTY CHAIRMAN:** Yes.

**Mr Hadlow:** Are you comfortable with the balanced budget methodology?

**The DEPUTY CHAIRMAN:** This memo was quite helpful. I believe I followed that okay.

**Mr Hadlow:** I will hand you another document. This is an extract from the Western Australian Grants Commission 2003-04 balanced budget detailed calculations and is the page in respect of recreation and culture.

**The DEPUTY CHAIRMAN:** What is the name of the council at the top of that page?

**Mr Hadlow:** Denmark. As you are aware, the commission calculates, using its calculations, how much income a council can raise. It also calculates, again using its calculations, how much the council needs to expend to fulfil its functions. Essentially, those functions are divided into two categories. One is, if you like, people services, and the other is roads. There really is no relationship between the two. We can excise roads out of it for the moment, because the calculation of the road need within the balanced budget, and the calculation of the road grant, are both done using the asset preservation mode. If you want me to talk about that later, I can. There are disability factors in there, but they are of much less importance. To work out the amount that is necessary for the council to spend to fulfil its people functions, the commission first of all arrives at a statewide standard. If we look at one of the simpler calculations, such as education, health and welfare, it basically gets the total expenditure by local government - all local governments aggregated for the whole State - and divides it by the population. It gives it so much in the dollar. It then multiplies that by the local government's population as recorded by the Australian Bureau of Statistics.

**Hon ROBIN CHAPPLE:** Is that population base purely residential; that is, who is on the roll?

**Mr Hadlow:** The base figure the commission uses is the ABS estimated resident population, which is, from what I know of it, the most finite version, because it is really taking account of all the factors that may have impacted on the census figure, so it is probably the truest figure that is available. The other thing the commission does, which does not apply to education, health and welfare, and I use that because it is very simple, but it does apply to the one that we are going to look at, which is recreation and culture, is that it makes a further adjustment to population to try to take account of non-resident workers.

**Hon ROBIN CHAPPLE:** That is what I was getting at.

**Mr Hadlow:** That includes people who drive in, drive out to, say, Bunbury each day but live in Eaton or Australind, which are in the Shires of Harvey and Dardanup. It also includes the people who fly into Port Hedland or Leonora to work at a mine site. Again, that data as of this year is based directly on an ABS question that was asked in the last census. That is the first time that data has become available. For a number of classifications in which the commission considers that those people impact on the local government's community amenities, which includes town planning and issues like that, and probably also, most importantly, recreation and culture, it adds those people to the population. For example, Bunbury, which has a population of around 30 000, currently has another 6 000 people added to its population for the calculation of those three categories.

**The DEPUTY CHAIRMAN:** They are basically added between the hours of 9.00 am and 5.00 pm?

**Mr Hadlow:** Exactly.

**The DEPUTY CHAIRMAN:** Unless they are shift workers or something.

**Mr Hadlow:** Yes. They are not deducted from the council of the shire in which they live, because they obviously still impact there. That has caused problems in the past. That is what caused the problem with the merger of the two councils in Albany.

**Hon DEE MARGETTS:** It has also been a big point of discussion in Narrogin, I think.

**Mr Hadlow:** Yes, because it is a shift from one to the other, and when you merge the two you lose the add on, because it was not taken off.

**Hon DEE MARGETTS:** Particularly if it is a recreation centre or a swimming pool.

**Mr Hadlow:** Yes. There is an impact.

**The DEPUTY CHAIRMAN:** Would you like to tell us anything further about the factors that are used for assessing grants? Can you give us an overview of the calculations and how the factors work? You obviously have more to tell us on that issue.

**Mr Hadlow:** Okay. The commission arrives at this base standard. Because it is just based on population on an average amount, if you like, across the State, it will be the same for any council anywhere in the State; that is, if the population is the same, the same figure will come out. The commission obviously realises that that does not truly reflect the situation on the ground, so it then applies the disability factors to tailor that base standard to the actual circumstances of the council. The first and most important factor is location. The location factor takes account of all the additional costs associated with where the local government is located. For instance, Halls Creek gets pretty close to the highest location factor within the State. Cocos and Christmas Islands go higher, but they are not technically within the State. The metropolitan area gets zero for that. The location factor generally starts to apply at about Chittering. Serpentine-Jarrahdale gets a very small amount, but Mundaring does not. It factors out from that. It takes account of a very complex range of issues that impact upon that. Obviously, freight is a significant one, but there are also things like the need to provide housing for staff, additional salary costs, the size of the urban centre, and communication costs. All of those factors are built into it. So that is applied, and, as I have said, for most country councils that is the most significant item. From there on, a series of individual factors - they are listed for recreation and culture on that sheet that I have given you - are then applied. Some of the factors are common throughout most of the expenditure classifications; but others are unique. The location factor is towards the left-hand side of the sheet that I have given you. The next factor is population dispersion, which is essentially for multiple towns. That factor, and the next one, socioeconomic disadvantage, apply to multiple classifications, and the factor amount will be the same. So it is a percentage, essentially. Three per cent per urban centre is the current population dispersion allowance, and that will apply to law, order and public safety, and education, health and welfare, etc. Socioeconomic advantage applies to virtually everything except transport and building control. The next ones are unique to recreation and culture. If you look at

law and order and public and safety you would find others that are unique. Climate, for example, naturally impacts on grassed areas, swimming pools and so on. The same applies to water supply. Jetties and boat ramps come under recreational functions. All the disability factors are then aggregated, including the location factor, and added to the base standard to give a preliminary standard factor. One thing I need to point out is that there is no compound; for instance population dispersion and socioeconomic disadvantage factors do not compound on location. They are applied individually. That has not always been the case.

[11.00 am]

**The DEPUTY CHAIRMAN:** Is each factor applied to the population-based factor?

**Mr Hadlow:** Exactly. Just as an aside, in recreation and culture, there are population and dwellings. You will find the different classifications have variations on the theme. Population is always in there, but the impact of population has been reduced over the past few years, which has been beneficial, especially for the wheatbelt. Each of those is applied, giving a preliminary standard total. Then the commission discounts that figure by the average amount that councils receive from grants to fund that function. In this case, it is about five per cent so it is discounted by five per cent. The end result is the figure that comes out. Denmark is on the top line. It starts with a preliminary standard of \$843 000; there is a 15 per cent location factor which adds \$129 000; six per cent population dispersion for two remote dispersed towns and another \$50 000 - so it goes across the page. Adding all those disabilities together gives a total of \$239 000 added to the \$843 000. That gives a figure of \$1.082 million; less basically five per cent, which gives a total of \$1.031 million.

**The DEPUTY CHAIRMAN:** That last factor appears to be uniform throughout the list.

**Mr Hadlow:** It is an average across the whole State. You must take into account everything. We are talking here about the principle of effort neutrality, which is where this comes from.

**The DEPUTY CHAIRMAN:** Can you explain that principle to us briefly?

**Mr Hadlow:** Effort neutrality means that when the commission is calculating how much grant a council should get, it is not to take account of anything the council controls. It is not to take account of its policy decisions. The outcome of this is that a council cannot control its grant. That is generally a good thing in my opinion.

**The DEPUTY CHAIRMAN:** Otherwise councils would present their position to maximise the grant.

**Mr Hadlow:** Exactly - the bigger the better and so on. That happened in the past. This nets it out. It means that the level of rates the council charges and whether it decides to charge rates at all - recently councils have given 95 per cent discounts - has no impact on the grant in the following years or that year. Whether the council provides a swimming pool or not is its policy decision. This situation will give councils the money necessary to provide the average range of facilities, if you like. How they determine how it is spent is up to councils.

**Hon DEE MARGETTS:** How wide is that, given the main driving force for this committee was to find out what initially was the impact of particular arrangements such as state agreement Acts? Is that all part of the effort neutrality mix or is it considered to be an external factor? When you said initially that grants were not necessarily in terms of need, what were you referring to? What council needs do you think have been missed out in this mix?

**Mr Hadlow:** My reference was to minimum grants. Metropolitan councils such as Stirling City Council, I think, according to the commission, have the capacity to pay the commission many millions of dollars under the balanced-budget methodology. Rather than being paid by the commission they should be paying the commission. However, they still get paid a grant. Stirling

City Council gets, I think, close to the second highest grant in the State even though, according to the commission it does not need one at all.

**The DEPUTY CHAIRMAN:** It has the population.

**Mr Hadlow:** Yes, under the commonwealth minimum grant requirement it receives a minimum grant. That is what I meant. There is a fixed pool of money and minimum grants come out of that pool first, which reduces the money available for elsewhere. Those councils do not get a grant on need. They get a grant statutorily, if you like. Would you like me to address what you asked -

**The DEPUTY CHAIRMAN:** Hon Dee Margetts joined us a little after we started. I have a series of mainline questions I want to ask and it would be great if everyone could cover the questions I have forgotten. That was my next question. I want to make sure that Mr Hadlow has given us all the factors used for the calculation. Taking us through this set of examples has been very helpful. We received a proposition from certain local authorities that they are disadvantaged because, within the geography of their area, state agreement Acts for mining operations exist. These Acts preclude them raising rate revenue on facilities that would otherwise, in their view, be subject to rate revenue.

**Hon DEE MARGETTS:** Plus they entail additional expenditure.

**The DEPUTY CHAIRMAN:** And they would argue also that there are costs involved. If we accept at face value the very prima facie purpose of the grants commission is to ensure that the commonwealth money is distributed among the local authorities throughout the State, taking into account their capacity to raise revenue and their needs, we would then assume that, if a certain local authority had less income because a state agreement Act stopped that local authority from raising income for certain facilities that it might otherwise raise - if the equalisation were working in a prima facie way - I imagine you would assume that loss of income would not be absorbed by only that local authority but also eventually by each of the local authorities in the State because the income forgone would be taken into account in the calculation. I would like to know in your opinion to what extent the grants commission achieves the distribution of that lost income. Can you consider mechanisms by which the grants commission's operations could be changed to distribute that loss of income throughout all the local government authorities rather than a particular local government authority being disadvantaged more than all the others because a mining operation exists within its boundaries?

**Mr Hadlow:** Your interpretation of it is correct. The commission assesses only income that the council can raise. If something is not rateable or has a concession rate applied to it, the commission takes that into account. I am not aware of anything to do with state agreement Acts that is not rateable that would be rateable in another sense. However, there are restrictions on the way in which councils can rate and there are unique valuation processes. My understanding is that the commission takes account of that, so valuations that it would use for calculating income from those state agreement areas would be the same ones as the council has access to and can raise its rates on as well. I have to say that some of the councils we are talking about are my clients. I have done work for Hamersley Iron and, even further back, BHP. I understand that one of the main bones of contention is the provisions, especially in the older state agreements, that do not allow the councils to use gross rental values on mine sites. I guess that is something outside the grants situation. However, the commission assesses them, based on what councils can use. The commission does not assess them as though they can do what a council in the south of the State can.

**Hon DEE MARGEETS:** It is one of the biggest single factors in any state agreement Act.

**The DEPUTY CHAIRMAN:** Let Mr Hadlow continue for a while.

**Mr Hadlow:** The income assessment by the commission is reduced, essentially by around the same amount as the council's actual income is reduced. That means that the grant need is increased by that same amount, if you like. That little exercise in the sheet I have provided is a comparison I

think of perhaps a resort or casino, which I used as an example. You could use that as GRV rating with the extra \$500 000 being GRV rates on the state agreement area. That is the impact it would have. If those councils obtained the right to GRV rate Hamersley or BHP, and it raised another million dollars in rates, over time, the grant could reasonably be expected to be reduced by a similar amount. Taking up your point, the amount by which the grants reduced, would then be available to other councils around the State to pick up any shortfall. This year the commission was able to fund 94 per cent of the average grant, so it is almost fully-funding at the moment, or pretty close to it. That is a lot different from the situation five or six years ago, when it was only about 50 per cent and there was a lot more impact. The commission takes account of the fact that those councils cannot get their income, if you like, and increases their grant accordingly.

[11.15 am]

**The DEPUTY CHAIRMAN:** So is it fair to estimate that if a clause in a state agreement Act was preventing a particular local government authority from receiving, for simplicity's sake, \$100 000 in income, then \$94 000 would essentially come back to that council through the grants commission process and in fact it would be out of tune by \$6 000 rather than \$100 000?

**Mr Hadlow:** In general terms, yes.

**The DEPUTY CHAIRMAN:** And would the cost of the \$94 000 be distributed among the remainder of the local authorities?

**Mr Hadlow:** That is correct.

**The DEPUTY CHAIRMAN:** That is very helpful. If I read your pamphlet correctly, there is a suggestion that there is an anticipation that that 94 per cent figure will increase in the years to come. Is that a correct understanding?

**Mr Hadlow:** Maybe that is a section that I have not updated. Unlike the commission, I try to run figures forward - something for which I think I have been criticised by the commission - in forecasting what the commission may or not do. The figures there have generally followed my trends, although they have lagged behind - they have not gone up quite as fast or as high. However, the trend line has been correct.

**The DEPUTY CHAIRMAN:** I am referring to the statement on page 3 of the pamphlet. I will read the part that I am referring to, because it may make my question a bit more clear. It states -

The Commission does not currently receive sufficient funds from the Commonwealth to fund the total grant need. After payment of Minimum Grants the commission can fund 94% of the remaining grant needs.

That is what you have just explained. It continues -

This could increase in the future to more than 100% if the present trend continues.

I am hoping that you can give us some more information on that trend.

**Mr Hadlow:** Looking at the trend now, it appears to be flattening out. However, it depends on what the commission does this year, because it does this calculation every year, and it just depends on what it comes up with. If it were to include more items, which is something the Commonwealth Grants Commission has suggested it do, then it could definitely drop right back. In fact, it is quite easy to see it dropping back to around 70 per cent. If it keeps going as it is, it will probably stay at around what it is. However, if more south west councils get calculations with higher income capacity, then, yes, the figure could still continue up.

**Hon ROBIN CHAPPLE:** Is this the Stirling factor?

**Mr Hadlow:** The 94 per cent, yes.



**Hon ROBIN CHAPPLE:** No. I mean in terms of the councils that actually do not need a grant - the ones that you were talking about earlier.

**Mr Hadlow:** Okay.

**Hon ROBIN CHAPPLE:** Does that not factor in?

**Mr Hadlow:** Only if more councils come in. If a council comes in to receive a minimum grant, it will drop off from getting the higher grant that it is getting at the moment. We have Gosnells, which I think is still just above the minimum - it may be under - but that will go to the minimum, and then that will stop and it will start to go back up again.

**The DEPUTY CHAIRMAN:** The grants commission governs its own formulas that it uses each year. Although theoretically it might be open to a body such as this committee to recommend that in calculating its next formula it take further consideration of income that might be lost by councils because of the effect of state agreement Acts, it would be up to the grants commission to decide whether to take that recommendation into account. Am I correct in my understanding?

**Mr Hadlow:** That is correct.

**The DEPUTY CHAIRMAN:** Are any parameters set in law on the grants commission to guide it in reaching its formulas, or is it purely up to the discretion of the commissioners?

**Mr Hadlow:** I guess in deciding the formulas, no. There is a set of principles that is laid down, but they are very general in that the interpretation within them can be quite wide. They definitely go nowhere near defining a formula or even indicators that would be used in a formula.

**Hon DEE MARGETTS:** Is that information accessible in an easily-digestible form?

**The DEPUTY CHAIRMAN:** Can you advise us as to where we can put our finger on that set of principles?

**Mr Hadlow:** I am pretty sure you will get them on the state Department of Local Government and Regional Development web site. I am pretty sure they are there. They are definitely on the web site of whatever the commonwealth department may be.

**The DEPUTY CHAIRMAN:** If I understand you correctly, the commissioners of the commission have total discretion, limited only by the commonwealth-set principles. Is that correct?

**Mr Hadlow:** My understanding - it is not my specialist area or anything like that - is that the only person who can change a grant is the federal minister.

**The DEPUTY CHAIRMAN:** Can you change a grant to a particular local authority?

**Mr Hadlow:** Or even a range of councils.

**The DEPUTY CHAIRMAN:** Which Act would we look at if we wanted to examine that more closely?

**Mr Hadlow:** I would say that would be in the Commonwealth Grants Commission Act. My understanding is that the state minister does not have that power.

**The DEPUTY CHAIRMAN:** I am hoping that our research staff will follow up on these things and we can check each of them out.

**Mr Hadlow:** The process is that the grants commission does its calculations, usually from now until about June. It then submits a list of the recommended grants to the state minister, who under the legislation either has to approve them or refer them back to the commission for reconsideration.

**The DEPUTY CHAIRMAN:** Would he refer back all the grants?

**Mr Hadlow:** All the grants, as I understand it. The commission, having reconsidered them, would then send them back to the minister, who then has no option but to approve them and refer them to the federal commission.

**The DEPUTY CHAIRMAN:** So the commission may say to the minister, "We were happy the first time, and now we are sending them back to you in exactly the same form as you sent them back to us."

**Mr Hadlow:** Which is what I understand happens.

**The DEPUTY CHAIRMAN:** Given what appears to be the very powerful amount of discretion that is given to the commissioners - because the principles that come from the Commonwealth are very broad and may be open to quite wide interpretation - that begs the question: who appoints these powerful commissioners, and for what term are they in office?

**Mr Hadlow:** The process, as I understand it - I have not read the legislation recently, so please research this as well - is that the chairman is appointed fundamentally by the minister, although I think technically it is by the Governor -

**The DEPUTY CHAIRMAN:** The state minister?

**Mr Hadlow:** Yes. The state minister puts someone forward for appointment. I think the Act specifies that the deputy chairperson will be someone from the state Department of Local Government and Regional Development. There are also three local government people, who must be, as I understand it, serving local government people.

**The DEPUTY CHAIRMAN:** Local government councillors?

**Mr Hadlow:** Yes, although I am not sure that staff cannot be nominated as well. I am not sure of the exact wording. In the whole time that I have been associated with it, it has always been elected members - councillors - although going back some years, the chairman was actually a former town clerk. The three local government people are recommended by the minister, I assume to the Governor, from panels and names put forward originally by the three associations: the Western Australian Local Government Association, being the local government association in the metropolitan area; the Country Shire Councils Association; and the Country Urban Councils Association. More recently, with the last appointments, those associations technically did not exist, so it was all from the Western Australian Local Government Association, with those groupings of councils nominating the people whom they wanted to put forward, and a selection was then made from that list.

**The DEPUTY CHAIRMAN:** For how long do the commissioners serve?

**Mr Hadlow:** I am not sure, but I think three years, or whatever term they are given. Sometimes it is a shorter term, depending on the circumstances. There might be an extraordinary situation, as applies at the moment, in which a newly elected commissioner resigned.

**Hon MURRAY CRIDDLE:** You have said that in state agreements there is a compensatory factor of 95 cent. Is that the situation?

**Mr Hadlow:** There is not a direct compensation, but the whole system makes that occur, if you like.

**Hon MURRAY CRIDDLE:** However, is that what actually happens?

**Mr Hadlow:** Effectively, yes.

**The DEPUTY CHAIRMAN:** Is it 95 per cent or 94 per cent?

**Mr Hadlow:** It is 94 per cent.

**The DEPUTY CHAIRMAN:** I just I wanted to make sure that we were talking about the same thing.

**Mr Hadlow:** The advice I give councils that are looking to increase their revenue significantly is that if they are going to do that, they need to make sure that it exceeds their grant, because otherwise they can lose money.

**Hon DEE MARGETTS:** How?

**Mr Hadlow:** If they suddenly do some sort of deal to get additional income, and it is less than their actual grant, the likelihood is that, over time, if they generate income that is additional and is not due to their policy, and if the commission takes account of that, their grant will reduce by that amount; so in a way, what is the point of it? I have talked about the expenditure calculations. A similar thing happens on the income side. The commission effectively - and I guess we are really talking about gross rental value rating in this hearing - uses an average rate in the dollar across the State to assess rate income. That rate is around 6c in the dollar. Therefore, if a council gets additional rate capacity from something that has been built, for example, and it rates that at 6c in the dollar, essentially its grant will be reduced over time by the same amount, or by 94 per cent of it. However, if it rates at 10c in the dollar - and the councils that we are talking about are generally rating at that level, or higher - it will be assessed at only 6c in the dollar, so it will lose 94 per cent of 6c in the dollar and will get to keep the rest of it. So there can be pluses. However, I had one council that obtained the power to GRV-rate a minesite - it was not under a state agreement, but it was a huge minesite - and it wanted to use a concessional rate. The minister - not the current minister but a past minister - told the council that it should do this. The minister was coming from a certain direction - we can understand where the minister was coming from - but obviously the grants commission was coming from a different direction, and it was going to rate at around 3c in the dollar. That would have meant that the council's grant would have gone down by, let us say, a quarter of a million dollars -

**Hon DEE MARGETTS:** Is that because it was considered to be its action?

**Mr Hadlow:** Yes, but its rates would have gone up by half that amount. It would have been out of pocket for a quarter of a million dollars. However, it was its policy to do that conversion rate.

[11.30 am]

**Hon MURRAY CRIDDLE:** What is the solution to this for local governments? Is there a solution or is it better that the State Government provide a grant to carry out infrastructure development? That is the main answer to the problem. If a local government charges rates it will get a small amount of money in that direction. The other answer is to get the State Government to give money for infrastructure.

**Mr Hadlow:** Exactly. If the amount of money councils get exceeds their current grant, they will be okay because they will get the extra money and they will still be ahead, although not by the amount they are obviously getting. If it is totally untied money - just a lump sum payment to the council from whatever source - I do not think the commission has any option under the commonwealth guidelines but to assess it as income.

**The DEPUTY CHAIRMAN:** Therefore reduce their grant.

**Mr Hadlow:** There are precedents for this with the Shires of Ashburton and East Pilbara, which receive payments from Hamersley and BHP.

**Hon ROBIN CHAPPLE:** Those were normalisation payments.

**Mr Hadlow:** Those were normalisation payments. The commission has taken account of those moneys. I believe it should not be taking account of them; nonetheless, it does take account of them. Given the terms of the payments the commission discounts the payments. Some of the terms of the payments tie the money and expenditure levels that councils must meet. The commission has discounted them to about 67 per cent and 72 per cent of the amount. They are taken account of and they are having a huge impact on those councils' grants. They are the benchmark at the moment for these sorts of contributions. The payments that, if you like, Port Hedland has received from BHP for the south Hedland enhancement scheme have not so far been assessed because they were specific and deemed to fall within that five per cent for recreational purposes and so on for the other classifications. However, if that sort of thing were to become widespread, I think the commission

again would be bound to examine it. Whether it would be assessed is more difficult to answer. It would very much depend on the terms and conditions and the way it was done. The only sure-fire way of it not being assessed would be for the council not to do the work.

**The DEPUTY CHAIRMAN:** I will test my comprehension of two things you have said: when the grants are allocated, they are allocated effectively on the assumption of the rate at which councils would choose to levy rates. If a council chooses to levy rates at a higher rate it will get that income resulting from the higher rate without losing its grant.

**Mr Hadlow:** Tax free - is what I use.

**The DEPUTY CHAIRMAN:** If it rates at a lower rate it will be penalised because that will not result in an increase in its grants from the grants commission.

**Mr Hadlow:** Exactly right. It will penalise itself.

**The DEPUTY CHAIRMAN:** If a council said it needed more money, one way to do that without suffering a 94 per cent offset by losing its grant would be to charge at a higher rate and then it would be answerable to its ratepayers at the next local council election, depending on how they assessed the importance of that money being spent.

**Mr Hadlow:** Exactly. If we look at the agreement for the East Pilbara shire, which is to do with Newman and payment there, it is pretty clear that BHP wanted the council to take over the services within the Newman town site, for which BHP was essentially the local government, without there being an increase in rates because it was trying to achieve its home ownership scheme of transferring houses.

**The DEPUTY CHAIRMAN:** Was that part of the normalisation process?

**Mr Hadlow:** Yes. The agreement is worded along the lines that the payment is in lieu of rates. This has become quite contentious with the commission. I have prepared numerous submissions for the council on the basis that because it is in lieu of rates it should not be assessed. If the council had done exactly what you are saying, Mr Deputy Chairman, and said to BHP that it did not want BHP's money; it wanted to retain its autonomy and that it would raise the money by levying a specified area rate or whatever on the Newman town site and raised \$1 million that way, there would be no question under the current methodology that it would not have affected its grant. However, the council opted to go the other way.

**Hon DEE MARGETTS:** If the town site is affected anyway by many of these agreements because the unimproved rate value also applies to the residential land, it is associated with the housing of employees is it not?

**Mr Hadlow:** The problem with the normalisation was that, from day one, the councils received full rates essentially on the town site.

**Hon DEE MARGETTS:** At Newman?

**Mr Hadlow:** Yes.

**Hon ROBIN CHAPPLE:** Once normalisation happened?

**Mr Hadlow:** No; prior to normalisation. That is what has caused the whole problem. From the day those town sites were created, anything that was not directly associated with the mine - which not only comes down to the office workshops but also all accommodation and commercial facilities - was fully rateable from day one. However, the council rated them, as anyone would - I am sure we would - and took the money. It had no need to spend it in Newman, Tom Price or Paraburdoo because it had no responsibility there; so it was spent elsewhere.

**Hon DEE MARGETTS:** I have never seen a state agreement Act - I may have missed it - in which a distinction was made. It may be the normalisation process, but I have seen quite a few

examples of agreement Acts in which all land allocated as part of the original deal - for a range of land uses - was classified as unimproved. I have not seen any exceptions.

**Hon ROBIN CHAPPLE:** That applied to mine sites and their facilities, not the town sites.

**Hon DEE MARGETTS:** Not always.

**The DEPUTY CHAIRMAN:** They are points we can usefully discuss afterwards and probably better use the committee's time.

**Hon DEE MARGETTS:** You have raised points of clarification, Chair, and I am asking if you are sure that is true. I have gone through every state agreement Act in this State and there is not a standard clause that says that residential land is -

**The DEPUTY CHAIRMAN:** We have very little time and Mr Hadlow has stated what he believes to be the case. Would you like to say something further on that?

**Mr Hadlow:** No; that is my understanding. Agreements differ from each other but for intents and purposes of the councils we are talking about, my understanding is that they were rateable from day one. Some of the councils provided services prior to normalisation. In fact, I think they all did probably because they felt they were getting the money from there so they should be doing some things.

**The DEPUTY CHAIRMAN:** You answered a question from Hon Murray Criddle earlier. Am I to understand that you said that if the State were to give a grant to a council to spend at its discretion, it would lose 94 per cent of that by an offsetting reduction in the grants commission grant, but if the State were to give a grant to a council tied to a specific purpose, it would not lose a corresponding proportion of money from its grants commission grant?

**Mr Hadlow:** We are probably better off saying it would be less likely to lose it. It would depend what it was for and how it was done and obviously the interpretation of the grants commission of the day. A precedent such as the South Hedland enhancement scheme was not assessed.

**The DEPUTY CHAIRMAN:** If the council were to ask you how it could generate more income, one answer would be to rate property at a higher rate. The other answer would be to seek funding for specific purpose grants rather than general purpose grants.

**Mr Hadlow:** But not to seek funding for things that will only create a greater liability for them in future, which I think is what may have happened.

**The DEPUTY CHAIRMAN:** In terms of maintaining the facility?

**Mr Hadlow:** Yes. It is great to take \$3 million for new parks and so on but councils must have the money to maintain them down the track. I understand that the recreation centre at Kununurra was funded by a mining company. It obviously takes a lot of money to maintain it.

[11.45 am]

**The DEPUTY CHAIRMAN:** It certainly would not be cheap.

**Mr Hadlow:** This especially happened with some of the employment schemes that were floating around, under which money was made available to do certain things, but the money then stopped, yet they have created new parks and new facilities and so on, and the only way of funding those for maintenance is by increasing their rates.

**Hon ROBIN CHAPPLE:** Are you saying that if a shire or a council somewhere were to establish a system of acquiring more money via an assistance program through some agency that was not covered by a grants scheme but was exempted, and over a period of time a number of councils were to adopt the same methodology, the grants commission would eventually look at them and decide that it would now take all these quasi-funding options into account? Is that usually what would happen?

**Mr Hadlow:** That has been the trend, yes. It is easier to see on the expenditure side with doctors, for instance. Probably six or seven years ago, I started to raise the issue of how funding for doctors was a disability for country councils. At that stage, when we first did it, the commission responded by saying that it was the council's policy decision to do that. A couple of years later, the councils were knocked because the commission did not consider it a local government function. However, two years ago, the commission agreed to it on the basis that it had become an accepted local government function; therefore, it was assessed. The discretion is there on the commission's part. If we look at the two normalisation payments that are made, I would argue that neither of those should be assessed by the commission, because the councils went out and negotiated them of their own volition. There was no statutory backing to those payments. It was their policy that got them the payment, and it was their choice as to whether to rate or take the payment. The commission has not agreed with that, but I am a purist, and I still believe, looking at that situation, that they should not be assessed.

**The DEPUTY CHAIRMAN:** Is that an example of the discretion that the commission has within the parameters set down by the Commonwealth?

**Mr Hadlow:** Obviously if someone like me, or the councils, were to say to the commission, "We want our grants to be increased by \$1 million each because of this principle, and we want all the other councils in the State to fund it" - which is essentially what would happen - you are politicians, and I am sure you can imagine what would happen.

**The DEPUTY CHAIRMAN:** We have an idea!

**Hon ROBIN CHAPPLE:** Many of the towns in the north west, such as Port Hedland and Tom Price - and it is not specifically in the north west, because Ravensthorpe will end up being like them - seem to have a greater suite and range of facilities than comparable towns in other parts of the non metropolitan area. Is that addressed in any way, shape or form by the grants commission??

**Mr Hadlow:** Not directly. You could say that to some extent things like the socioeconomic disadvantage factor may address some of that. It is very hard to know what the socioeconomic disadvantage factor picks up. It is taken from an index compiled by the Australian Bureau of Statistics, and it takes account of income levels, whether people have one or two cars, and so on. For instance, in the Hedland situation, it would pick up whether only one person is working and that person is using the car, which will mean a lack of facilities for the wife and children.

**Hon ROBIN CHAPPLE:** What about whether the shire has two pools?

**Mr Hadlow:** Yes, to some extent it may. It is fairly tenuous. You could say that that comes into it. There is no direct thinking as to that, because I guess essentially no-one has proved a reason for the need, other than that it is the policy of the council to do these things. Perhaps it is enough to obtain the funds for the capital side of it. However, that raises this ongoing problem with funding once a council has got the capital. It is very hard for a council to refuse \$1 million to build a theatre or an indoor recreation centre.

**The DEPUTY CHAIRMAN:** Yes - to explain to its ratepayers why it declined the offer.

**Hon ROBIN CHAPPLE:** The Tambrey Centre in Karratha would be a classic example. You have given us the balanced budget detailed calculations sheet for recreation and culture. If we could get hold of the full suite of those documents, that might be very useful for the committee to examine.

**Mr Hadlow:** That is available on the Department of Local Government and Regional Development web site. If you follow the links to the grants commission, you will find it. There is also a principles and methodologies book there and other data that has been published,

**Hon MURRAY CRIDDLE:** I would not like you to leave here without your giving us the wisdom of your knowledge with regard to your solution to this problem that we face. Obviously with your experience you would have a view.

**Mr Hadlow:** I guess the only safe way would be in the rating area, and that would retain the local government's autonomy as well, but obviously it will be unpopular in certain areas. There are a lot of rating powers now. The Shire of Roebourne now has a differential rate for accommodation for fly in, fly out people, so if it believes that they are not paying their way, there are ways within the current legislation to actually target those people and get additional income. The rate area is the only really safe way. With regard to the other way, such as royalties and so on, I really cannot see it escaping the grants commission in the way it is structured, so unless the councils were to get very large payments, they could very well not really gain from it. The same goes for changing the state agreement Acts to make mine sites GRV-rateable, in that the councils will gain the money in rates on the one hand, but they will lose a significant amount of that on the other side. They will, however, probably be happier, because they will be controlling their own destiny and will be on the same basis as other local governments.

**The DEPUTY CHAIRMAN:** Presumably they would net six per cent.

**Mr Hadlow:** They would net at least six per cent, but if you look at the rates those councils charge - and a comparison of all the rates across the State is available; you can get that from me - you will probably find that their rates are above average already anyway.

**The DEPUTY CHAIRMAN:** So it would be six per cent if they were charging at the standard rate level?

**Mr Hadlow:** If they were charging at 12c in the dollar, they would be keeping as much as they were losing. I do not know whether I should say this, but I think the argument is as much about autonomy as it is about dollars. The councils are then able to control the situation. The two councils that receive normalisation payments are being phased out and will cease to exist very soon, but they have always felt that they were very much constrained by those payments, because they did not necessarily have as much scope with them as they would have liked.

**The DEPUTY CHAIRMAN:** How would they have more autonomy?

**Mr Hadlow:** Because they set the rate in the dollar, so if they wanted to increase the rate, they could increase the rate.

**The DEPUTY CHAIRMAN:** That is the autonomy that you are referring to?

**Mr Hadlow:** Yes.

**Hon MURRAY CRIDDLE:** You were saying that if they could raise more rates, that would probably be the answer. Will that cover the requirements of those councils, or will they fade away into insignificance?

**Mr Hadlow:** I guess this is what you call requirements. Under the Local Government Act, they should never have gotten into a situation in which they were not covering their requirements, because they are required to fundamentally work out how much they need to spend to do everything, and then divide the valuation that they get for rating purposes into that and set that as a rate in the dollar. As I understand it, that is really the legal situation. If they are in trouble, either it is a planning issue, or they have not raised enough income. I think realistically we know that they have some larger commitments. Just truly what those are is beyond me to comment on. It is very hard to assess. Generally these things do not come down to a single cause.

**The DEPUTY CHAIRMAN:** So if a council had facilities that had been provided in the past by a mining company and that are expensive to replace or maintain, that could be the core of the problem?

**Mr Hadlow:** Yes. The grants commission has demonstrated in Tom Price, Paraburdoo and Newman that that is cause for additional expenditure. The facilities there, unlike those in Karratha and Port Hedland, were actually constructed, to a large extent, and provided by the mining companies to their standards. They had a mine life of, say, 25 years, and they wanted the road

culverts to last for 25 years, so they used a method of construction that the local government, regardless of how long it thought the town would last, did not use. Some of the other facilities, such as the pool, also have a standard and a maintenance level that is different from what the council would have had, hence the discounting that it took into account.

**The DEPUTY CHAIRMAN:** When you said that that was recognised by the grants commission, did those local authorities receive an additional payment in recognition of that?

**Mr Hadlow:** No. They had less of their grant reduced by the normalisation payment. Let us say that the normalisation payment averaged at around \$1 million before it started to phase down. The commission would then reduce their grant by, say, \$700 000 - the \$300 000 difference being these different circumstances.

**The DEPUTY CHAIRMAN:** Taking into account the expense of maintaining the establishment?

**Mr Hadlow:** Yes.

**Hon DEE MARGETTS:** One of the issues that has come up in a number of the shires that I have talked to is that not only do they miss out on the revenue, but also the actual cost of servicing an industry that is associated with a state agreement Act - because generally they are for large industries - is a lot more. For example, in most of the state agreement Acts there is no component for the companies to pay for the cost of the enormous trucks that are using the roads. The company might have put in the roads, but the shire ends up picking up the tab for the wear and tear from those trucks using the roads. Their argument is that the cost associated with servicing a state agreement Act is much larger than in a normal town with a range of industries. Is that your understanding as well?

[11.50 pm]

**Mr Hadlow:** Not really, no. If we use roads, I believe the commission is quite amenable to submissions on that issue and, in part, takes account of what you are talking about. It allows additional allowances within both the balanced budget and road funding calculations where abnormally heavy traffic uses gravel roads. It does not allow it for sealed roads, and it does not for, say, roads in Bunbury. I believe that it is working towards that and I am not sure that it is not local government's fault that it does not have a model, because it does not have reliable data from the councils to be able to work out a model. On the roads issue, I would have thought the commission was quite open to actually going down that track.

As to other costs, I guess I can only comment on specifics as far as service charges go. I understand the councils have exactly the same grounds for recovering service costs from loans as anyone else does. Planning can be an issue - if councils see a company causing planning. However, there is a bit of a structural difference, if you like, between Port Hedland and the other councils, in that Port Hedland receives in dollar terms very little in the way of rates from state agreement areas, although I assume that it is servicing rates on everything to do with state agreements, although it is not much. It is fairly small. The other councils receive very large amounts of rates generally. You have to balance that income side against those costs also.

**Hon DEE MARGETTS:** You mentioned rates being the method of dealing with this. Given that the law as it stands with agreement Acts does not allow them to charge compensatory rates to the company, and it specifically indicates that they cannot fudge it in any way, how would a town that is put together substantially by a state agreement Act use the rating system in those circumstances to make up the difference? Surely that would not be possible?

**Mr Hadlow:** It needs legislative change to enable councils to GRV rate, for instance, the mine sites. Councils can levy specified area rates if they deem certain areas will benefit from specific things. That has some scope, but it is a matter of whether the rate concessions through valuation should remain there or not. If they go, then the councils can rate exactly the same.



**Hon DEE MARGETTS:** Somehow or other you indicated that the answer was within councils but I think your clarification is that the issue is at least shared by State Governments, which must make that legislative change.

**Mr Hadlow:** It is shared. I think it is a bit of both. The councils can increase their rates.

**Hon DEE MARGETTS:** On non-state agreement Act land.

**Mr Hadlow:** Yes - whatever they want to do. At the end of the day, the bulk of that income will end up with the companies in one way or another. If people start to leave the area because they cannot afford to pay the rates, the company will have to do something about it.

**The DEPUTY CHAIRMAN:** Another way of accommodating their staff.

**Mr Hadlow:** Yes. That is what happened with the Newman situation. The company basically took action to keep rates low so it did not have industrial troubles. Obviously, politically for the council, that is not a pleasant way to go. The other one is changing valuation situations, which enables councils to get more rates. However, changing a valuation situation will bring the grants commission into play so it will then assess it. Councils would be looking at the difference.

**The DEPUTY CHAIRMAN:** We are on a very tight deadline to finish at 12.00. That is a great pity. We could learn more by talking to you over a longer period of time.

Some local government authorities suggest that their financial base needs to be more secure. Would you like to suggest how that could be achieved?

**Mr Hadlow:** The only secure income source for a local government is its rates base. Any other source is subject to outside influence. Any other source, unless it is protected by legislation, is not secure and that is what has happened with normalisation payments. What has concerned the councils is that they do not know necessarily, outside each agreement, what they will get and they do not have control over changing it from year to year. Rates are a different issue. They can increase and reduce them as they wish.

**The DEPUTY CHAIRMAN:** Thank you very much for your time this morning. We appreciate the chance to benefit from your wisdom and experience. An uncorrected transcript of today's hearing will be provided to you. The committee clerk will send out a letter advising you when it should be returned. As we said in the opening statement, that will remain a private document until finalised. When corrections are returned, it will be available on the web site from the Legislative Council committee office. Thank you very much.

**Mr Hadlow:** Thank you.

**Committee adjourned at 12 noon**

