



SECOND SESSION OF THE THIRTY-SIXTH PARLIAMENT

**REPORT OF THE
STANDING COMMITTEE ON
PUBLIC ADMINISTRATION AND FINANCE
IN RELATION TO THE
LOCAL GOVERNMENT RATING SYSTEM AND
DISTRIBUTION OF FUNDS**

Presented by Hon Barry House MLC (Chairman)

Report 10
November 2004

STANDING COMMITTEE ON PUBLIC ADMINISTRATION AND FINANCE

Date first appointed:

May 24 2001

Terms of Reference:

The following is an extract from Schedule 1 of the Legislative Council Standing Orders:

“2. Public Administration and Finance Committee

- 2.1 A *Public Administration and Finance Committee* is established.
- 2.2 The Committee consists of 7 members.
- 2.3 The functions of the Committee are -
 - (a) to inquire into and report on the structure, efficiency, effectiveness, and economic management of the system of public administration;
 - (b) to consider and report on any bill or other matter referred by the House;
 - (c) to inquire into and report on practice or procedure applicable or relating to administrative acts or decisions (either generally or in a particular case without inquiring into or reporting on the merits of the case);
 - (d) to inquire into and report on the existence, adequacy, or availability, of merit and judicial review of administrative acts or decisions;
 - (e) to consult regularly with the Parliamentary Commissioner for Administrative Investigations, the Auditor General, the Public Sector Standards Commissioner, the Information Commissioner, and any person holding an office of a like character.
- 2.4 Subject to subclause 2.3 (b), the following are excluded from inquiry by the Committee -
 - (a) the Governor’s establishment;
 - (b) the constitution and administration of Parliament;
 - (c) the operations of the Executive Council;
 - (d) a decision made by a person acting judicially;
 - (e) a decision made by a person to exercise, or not exercise, a power of arrest or detention.”

Members as at the time of this inquiry:

Hon Barry House MLC (Chairman)	Hon John Fischer MLC
Hon Ed Dermer MLC (Deputy Chairman)	Hon Ken Travers MLC
Hon Murray Criddle MLC	Hon Sue Ellery MLC
Hon Robin Chapple MLC (Substitute member for Hon Dee Margetts MLC)	

Staff as at the time of this inquiry:

Lisa Hanna, Advisory Officer (General)	Jan Paniperis, Senior Committee Clerk
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Note

The Tenth Report of the Public Administration and Finance Committee consists of a Report of the Committee and a Minority Report of Hon Ed Dermer MLC, Hon Ken Travers MLC and Hon Sue Ellery MLC.

The Report of the Committee reflects the unanimous position of the Committee save and except for paragraphs 2.59, 5.1, 5.2, 5.3, 5.6, 5.7, 5.8, 5.9, 5.10 and recommendations 8 and 9.



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Government Response

This Report is subject to Standing Order 337:

After tabling, the Clerk shall send a copy of a report recommending action by, or seeking a response from, the Government to the responsible Minister. The Leader of the Government or the Minister (if a Member of the Council) shall report the Government's response within 4 months.

The four-month period commences on the date of tabling.

CONTENTS

GOVERNMENT RESPONSE	
RECOMMENDATIONS	i
RECOMMENDATIONS	i
CHAPTER 1 INTRODUCTION	1
REFERENCE.....	1
INQUIRY PROCESS	1
THE IMPORTANCE OF REGIONAL WA	2
CHAPTER 2 STATE AGREEMENT ACTS AND LOCAL GOVERNMENT	5
STATE AGREEMENT ACTS	5
THE LOCAL GOVERNMENT RATING SYSTEM APPLYING TO STATE AGREEMENT ACTS	6
Rating valuations.....	8
Rationale behind the rating system applying to past State Agreement Acts.....	9
Effect of the operation of State Agreement Acts on local government authorities in regional areas.....	10
Reliance on other sources for revenue compared with other local government authorities	13
Cost burden of infrastructure development and maintenance.....	13
Local government contribution to mining companies.....	16
The level of financial imposition on local government as a result of State Agreement Acts	16
Department of Industry and Resources Study	17
Rationale behind the rating system applying to future State Agreement Acts.....	18
Protocol	20
COMMITTEE COMMENT.....	21
CHAPTER 3 FUNDING SUPPORT TO REGIONAL WA	25
INTRODUCTION	25
COMMONWEALTH GOVERNMENT FUNDING SUPPORT TO REGIONAL WA	25
Specific purpose payments to local governments	25
Financial assistance grants to local governments.....	26
General purpose grants.....	27
Road funding	28
Commonwealth grants to local governments under State Agreement Act restrictions	29
Impact of a change in the revenue of local government.....	30
Non-rate revenue.....	32
Committee Comment.....	32
STATE GOVERNMENT FUNDING SUPPORT TO REGIONAL WA	33
Services.....	34

Grant and program funding	34
A local government view	35
Amount of State Government funding support to regional WA.....	36
Amount of grant and program funding	39
Funding to the Pilbara	40
Committee Comment	41
INDUSTRY CONTRIBUTION	41
Local government view of industry contribution.....	43
Committee Comment	43
CHAPTER 4 A SECURE FINANCIAL BASE FOR LOCAL GOVERNMENT	45
INTRODUCTION	45
OPTIONS FOR PROVIDING A MORE SECURE FINANCIAL BASE FOR LOCAL GOVERNMENT	
.....	49
Compensation	49
Committee Comment.....	52
Changes to State Agreement Acts	52
Committee Comment.....	53
Amendment of the <i>Local Government Act 1995</i>	53
Industry contribution.....	53
Committee Comment.....	53
Change to Local Government Grants Commission processes.....	54
Committee Comment.....	54
Community Foundation	55
Committee Comment.....	56
Other	56
Managing Expenditure.....	56
COMMONWEALTH GRANTS TO THE STATE	56
Committee Comment.....	59
AN ISSUE RELATING TO COMMONWEALTH-STATE FINANCIAL RELATIONS.....	59
Committee Comment.....	61
THE IMPACT OF STATE AGREEMENT ACTS ON STATE REVENUE	62
CHAPTER 5 FINDINGS AND RECOMMENDATIONS	65
FINDINGS.....	65
RECOMMENDATIONS	66
APPENDIX 1 PEOPLE TO WHOM THE COMMITTEE WROTE	69
APPENDIX 2 WRITTEN SUBMISSIONS RECEIVED BY THE COMMITTEE.....	91
APPENDIX 3 WITNESSES WHO GAVE EVIDENCE TO THE COMMITTEE	95
APPENDIX 4 STATE AGREEMENT ACTS.....	99

APPENDIX 5 EXAMPLE OF A TYPICAL RATING PROVISION CONTAINED IN A STATE AGREEMENT ACT	105
APPENDIX 6 THE NATIONAL PRINCIPLES	109
APPENDIX 7 LOCAL GOVERNMENT EXPENDITURES/REVENUES EXCLUDED IN LOCAL GOVERNMENT GRANTS COMMISSION EQUALISATION MODEL (2003/04)	113

RECOMMENDATIONS

RECOMMENDATIONS

1 Recommendations are grouped as they appear in the text at the page number indicated:

Page 22

Recommendation 1: The Committee recommends that if there are to be future State Agreement Acts that:

- they do not automatically impose rating restrictions on local government authorities; and
- the State will not generally seek to include such provisions in State Agreement Acts,

consistent with recent practice.

Page 23

Recommendation 2: The Committee recommends that the current *Local Government and Department of Industry and Resources Protocol for future State Agreements and resource projects of significance to the State* be maintained.

Page 23

Recommendation 3: The Committee recommends, in order to ensure that local government authorities (when being consulted about a future State Agreement Act) are not precluded by budgetary constraints from obtaining independent expert advice, that the State Government examines and considers making available reasonable financial provision for such independent expert advice.

Page 55

Recommendation 4: The Committee recommends that the Western Australian Local Government Grants Commission, in its grant determination process, make allowance in respect of the fly-in/fly-out workers who use facilities provided by a local government authority where the primary place of residence of those workers is not within that local government authority's rating jurisdiction.

Page 62

Recommendation 5: The Committee recommends that:

- the Department of Treasury and Finance maintain a central registry of industry support projects, including reference by industry and location;
 - the Department of Treasury and Finance undertake an analysis of the financial contribution made by the State Government and each Western Australian local government authority to:
 - a) facilitate the resource industry, and
 - b) sustain viable communities to accommodate resource industry employees;
- and
- the Minister for Federal Affairs recommend to the Commonwealth Minister responsible for the *Commonwealth Grants Commission Act 1973*, that steps be undertaken to investigate ways in which the Commonwealth Grants Commission may take into account the results of this analysis when it makes inquiries and reports on how grants are to be distributed between the States and Territories.

Page 62

Recommendation 6: The Committee recommends that the Minister for Federal Affairs recommend to the Commonwealth Minister responsible for the *Commonwealth Grants Commission Act 1973*, that steps be undertaken to investigate ways in which the Commonwealth Grants Commission may take into account the needs of regional Western Australia when it makes inquiries and reports on how grants are to be distributed between the States and Territories.

Page 63

Recommendation 7: The Committee recommends that the Department of Industry and Resources should review their record keeping practices in relation to State Agreement Acts with a view to ensuring that information of the type referred to in paragraph 4.59 is obtained, kept and able to be provided readily.

Page 66

Recommendation 8: The Committee recommends that the State should immediately provide funding support, on a needs basis and with full accountability, to the affected local government authorities in regional areas of Western Australia, in a manner that does not impact on the local government authorities' grants. This funding support should continue until such time as the problems of affected local government authorities, identified in this report, are resolved.

Hons Ed Dermer, Ken Travers and Sue Ellery MLCs dissent from Recommendation 8.

Page 66

Recommendation 9: The Committee recommends that, in relation to existing State Agreement Acts, the State Government should enter into negotiations with the parties to the State Agreement Acts, with a view to negotiating a restitution to negate the impact of the rating restrictions imposed on certain local government authorities under State Agreement Acts.

Hons Ed Dermer, Ken Travers and Sue Ellery MLCs dissent from Recommendation 9.

CHAPTER 1

INTRODUCTION

REFERENCE

- 1.1 On October 15 2003, on motion by Hon Norman Moore MLC, the Legislative Council ordered that the Standing Committee on Public Administration and Finance (Committee) inquire into and report on the local government rating system and distribution of funds.¹
- 1.2 The terms of reference established by the Legislative Council for the inquiry are:

That the Standing Committee on Public Administration and Finance be required to inquire into -

- (a) the rationale behind the Local Government rating system applying to past and proposed State Agreement Acts;*
- (b) the distribution of State funding support to the State's regions (including royalties and the grants to Local Government); and*
- (c) the most equitable way of ensuring a secure financial base for local government authorities in the context of the operation of Commonwealth-State financial relations,*

with a view to determining whether changes are required to create greater equity in respect to the distribution and level of State financial support available to regional Western Australia.

INQUIRY PROCESS

- 1.3 On October 20 2003, the Committee appointed a Subcommittee comprising Hons Ed Dermer, Murray Criddle and Robin Chapple MLCs, to conduct the inquiry. The Committee granted leave for Hon Dee Margetts MLC to be a participating member in the inquiry. The Subcommittee granted leave for Hon John Fischer MLC to also be a participating member in the inquiry.

¹ Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, October 15 2003, p12001.

- 1.4 The Committee advertised for written submissions in *The West Australian* newspaper on November 29 2003. The Committee also wrote to key stakeholders inviting them to make a submission addressing the terms of reference for the inquiry. A list of the people to whom the Committee wrote is attached at Appendix 1.
- 1.5 The Committee received 34 submissions. A list of the written submissions received by the Committee is attached at Appendix 2.
- 1.6 The Committee held public hearings on April 5, April 19, May 3 and May 10 2004. A list of witnesses who gave evidence to the Committee is attached at Appendix 3.
- 1.7 The Committee thanks the individuals and organisations that provided evidence and information for the inquiry.

THE IMPORTANCE OF REGIONAL WA

- 1.8 The importance of Western Australia's (WA) regions to the state and national economies is undisputed. WA's regions provide 83 percent of WA's exports and 20 percent of national exports.²
- 1.9 Much of this economic success is tied to resource projects that are based on agreements between the State and major resource companies. The agreements have been seen in the past as necessary to encourage resource development in regional WA. However, the agreements have, in some instances, had an impact on parties external to the agreement, particularly local government authorities operating in regional areas.³
- 1.10 The unique geography and population dispersion of WA, with regional areas comprising over 90 percent of WA's land area, inhabited by only 27 percent of the population (approximately 500,000 people),⁴ presents unique challenges in providing adequate support to communities within regional areas.
- 1.11 The continuation of economic success and community development within regional WA is strongly dependent on the extent to which the regions, including the local government authorities that exist within them are supported.⁵

² Department of Local Government and Regional Development, *Indicators of Regional Development in Western Australia*, March 2003, p10.

³ See for example, The Public Accounts and Expenditure Review Committee (PAERC) Report No 31; and Auditor General for Western Australia, *Developing the State: The Management of State Agreement Acts*, Report 5, June 2004.

⁴ Department of Local Government and Regional Development, *Indicators of Regional Development in Western Australia*, March 2003, p10.

⁵ Local government has the role of: maintaining the infrastructure of the local community; providing assistance in the administration of the urban and regional areas of WA; and providing services in the areas of health, community, recreation, culture and environment. There are 142 local government authorities in WA - of these 20 percent are categorised as urban and 80 percent as rural and regional.

- 1.12 With this in mind and within the context of Commonwealth-State financial relations, the Committee's major focus has been on examining funding support available to regional WA, including local government, where State Agreement Acts operate. It is the object of this report to inform the Parliament of the current distribution and level of State financial support available to regional WA, and to determine whether changes are required to generate stronger support to the regions.

CHAPTER 2

STATE AGREEMENT ACTS AND LOCAL GOVERNMENT

STATE AGREEMENT ACTS

- 2.1 A State Agreement Act is an agreement or contract made between the State and the proponent of a major resource project, which contains the obligations of both parties. These agreements are ratified by Parliament.⁶
- 2.2 State Agreement Acts have been used for over 50 years by the WA Government (State Government) to offer significant incentives to attract companies to undertake major mineral and energy resource development in WA, such as security of tenure, reduced royalty rates and reduced fuel or rate charges. It has been noted that the use of State Agreement Acts by the State Government has been encouraged by the national and international environment of competition for development of export industries, and the recognition that the exploration and extraction of minerals and energy resources is extremely capital intensive and is an industry dominated by uncertainty and high risk.⁷
- 2.3 The submission from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development (Joint Departmental Submission) states that there are 65 State Agreement Acts currently in place in WA.⁸ A list of these State Agreement Acts is attached at Appendix 4.
- 2.4 The majority of resource projects in the north and south east of WA come under State Agreement Acts. Resources projects operating under provisions of State Agreement Acts include the North West Shelf natural gas processing projects, the Pilbara iron ore projects, bauxite and alumina, diamonds, mineral sands, salt, timber processing and coal.⁹
- 2.5 WA State Agreement Acts have been recognised as having a significant role in the development of the national and WA economy.¹⁰ The direct economic benefit to WA

⁶ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p8. For further information on State Agreement Acts see, for example, Dianne Forde, *Mechanism for Mineral Resources Development in Western Australia*, Murdoch University, February 1993.

⁷ Dianne Forde, *Mechanism for Mineral Resources Development in Western Australia*, Murdoch University, February 1993, pp33-36.

⁸ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p2.

⁹ <http://www.doir.wa.gov.au/aboutus/A98C862789A44114A9AC5D3DEB503354.asp>, (current at March 16 2004).

¹⁰ Auditor General for Western Australia, *Developing the State: The Management of State Agreement Acts*, Report 5, June 2004, p6.

provided by Agreement projects through royalty revenue was approximately \$1 billion in 2002-03.¹¹

- 2.6 For the proponents of major resource projects State Agreement Acts provide certainty as to the regulatory conditions under which the company will operate.¹² They also provide security for substantial company investments in major resource development projects. For example, as stated by Rio Tinto in their submission:¹³

Rio Tinto believes the commitment and surety provided by State Agreement Acts is paramount to continued substantial investment by companies with State Agreement Act operations and other companies in general that operate in Western Australia.

THE LOCAL GOVERNMENT RATING SYSTEM APPLYING TO STATE AGREEMENT ACTS

- 2.7 A concession or exemption that is commonly granted by the State to companies under State Agreement Acts is the local government rating concession and exemption from discriminatory rates, taxes or charges.¹⁴ Under the provisions of State Agreement Acts, local government authorities may only charge rates based on the unimproved value (UV); that is, the valuation of lands within State Agreement projects are, for rating purposes, deemed to be based on the UV, regardless of the Act under which they are issued. Further, the land covered by a State Agreement Act may not be subject to 'discriminatory rates, taxes or charges'.¹⁵
- 2.8 These rating concessions and exemptions generally apply for the life of the Agreement. Many agreements span many decades, typically up to 63 years¹⁶ and for some agreements indefinitely, with no stated end date. Furthermore, in most cases no review date is specified.¹⁷
- 2.9 The rating concessions and exemptions applied under most State Agreement Acts limit the amount of rate revenue local government authorities may raise, as they may only charge rates based on the UV not the higher gross rental value (GRV) (see Box 1 on page 8 for further information on rating valuations).

¹¹ <http://www.doir.wa.gov.au/documents/StatisticsDigest/royaltyreceipts0203.xls>, (current at September 23 2004).

¹² Submission No 20 from the Chamber of Commerce and Industry WA, January 28 2004, p4.

¹³ Submission No 16 from Rio Tinto, January 27 2004.

¹⁴ Auditor General for Western Australia, *Developing the State: The Management of State Agreement Acts*, Report 5, June 2004, p29.

¹⁵ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p9.

¹⁶ State Agreement Acts generally provide that the term of the agreement may extend for up to 63 years (comprising an initial 21 year agreement term, followed by two options to extend the term of the agreement of up to 21 years each in duration).

¹⁷ Letter from Mr D D R Pearson, Auditor General, Office of the Auditor General, July 22, 2004.

2.10 Fifty-two (52) of the 65 State Agreement Acts in place in WA contain clauses that limit the valuations of project land to UV only. The limitation does not apply completely over the project land in all cases, in that:¹⁸

- the rating limitation in 34 of the State Agreement Acts excludes any part of the land on which a dwelling is erected and any commercial undertaking other than that which is the subject of the State Agreement Act; and
- the rating limitation in 18 of the State Agreement Acts excludes any part of the land on which a dwelling is erected.

2.11 The definition of what constitutes a ‘dwelling’ or ‘commercial undertaking’ within a State Agreement Act rating clause is primarily a matter for interpretation under the *Local Government Act 1995*.¹⁹ In general terms, an accommodation village on State Agreement project lands that are used for purposes such as sleeping, eating washing, laundry, goods and service provisioning and recreation, could be rated on a GRV.²⁰ A campsite used by fly-in/fly-out workers or premises used by contractors who work for the Agreement Act company can be rated at GRV.²¹ As stated in the Joint Departmental Submission:²²

an example of this is company housing and commercial premises in the town of Newman rated on GRV. This is adjacent to the mining operation of Whaleback, which under the State Agreement is rated on unimproved value.

2.12 The term ‘discriminatory’ is not defined in either the State Agreement Acts or in the *Local Government Act 1995*. The Minister for State Development has advised the Committee that:²³

Discriminatory rates and charges may be regarded as rates and charges to which a State Agreement company could be subjected which are distinguished from or different to those applied to another company or other companies in the same position as the State Agreement company.

¹⁸ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p9.

¹⁹ Letter from Hon Clive Brown MLA, Minister for State Development, July 9 2004.

²⁰ Ibid.

²¹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p9.

²² Ibid, p42.

²³ Letter from Hon Clive Brown MLA, Minister for State Development, July 9 2004.

Whether or not such discrimination has occurred can really only be considered having regard to the particular circumstances of each plant or mining operation.

- 2.13 The concept of discriminatory rating should not be confused with the concept of differential rating, as defined by section 6.33 of the *Local Government Act 1995*. The key distinction between discriminatory rating and differential rating is that under a system of differential rating, rates can vary from one piece of land to the next on the basis of a given set of established criteria that is defined in the *Local Government Act 1995*. However, discriminatory rating is entirely ad hoc. Refer to Box 1 below for further information on differential rates.
- 2.14 An example of a typical rating provision contained in a State Agreement Act is attached at Appendix 5.

Rating valuations

- 2.15 The *Local Government Act 1995* and the *Valuation of Land Act 1978* set out the applicable valuations and rates in relation to project lands and mining tenements. This is summarised in Box 1 below.

Box 1

Rating Valuation²⁴

Under the *Local Government Act 1995* (s6.28) rating is either based on ‘unimproved value’ (UV) or on ‘gross rental value’ (GRV). A rate in the dollar is multiplied against either the UV or the GRV in order to levy rates against each property. The rate in the dollar may differ based on the property’s classification, for example, residential, commercial or rural.

The Valuer General makes valuations on land, which are used by rating authorities as the basis of rates levied.

A GRV is the gross annual rental (net rent plus outgoings²⁵) a property can achieve.

A UV is a vacant land value applied to all land in WA. In urban areas it is the site value, and in rural areas it is determined on the assumption that the land is in its virgin state or a percentage of the improved land value excluding buildings.

²⁴ Extract from Attachment 2 of Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004; from Department of Land Information, *Information Sheet: Rating and Taxing Valuation*, www.dola.wa.gov.au/corporate.nsf/web/Rating+and+Taxing+Valuation, (current at March 15 2004); and from Department of Land Information, *Valuer General’s Rating and Taxing Values*, June 2004.

²⁵ A GRV is determined on the basis that the rental includes outgoings such as rates, taxes, insurance and other outgoings necessary to maintain the value of the land. As most commercial rentals are negotiated net of outgoings these outgoings are added to the net rental.

Under the *Local Government Act 1995* (s6.29) any mining tenement²⁶ held under the *Mining Act 1978*, regardless of whether or not it is the subject of a State Agreement Act, is to be rated on the basis of UV even if it is located in an area for which the basis of rates is GRV.

The Joint Departmental Submission states that under the *Local Government Act 1995* (s6.28) a local government authority can negotiate with a mining company in regard to valuing the portion of land on which the mine's infrastructure is situated. The local government authority can then apply to the Minister for Local Government and Regional Development to change the method of valuation for that portion of land. If approved, the local government authority will ask the Valuer General to value the portion and a differential rate can then be applied.

Under the *Local Government Act 1995* (s6.33) local government authorities can impose differential rates according to the land's zoning, the use to which it is put, whether the land is vacant or not, or any other characteristic prescribed in regulations. The differential rate imposed cannot, without the Minister for Local Government and Regional Development's permission, impose a rate that is more than double its lowest differential general rate. A differential rate can be applied to infrastructure such as buildings or a campsite on a mining tenement. This section does not apply where a rating clause is included in a State Agreement Act.

Rationale behind the rating system applying to past State Agreement Acts

- 2.16 The rating concessions and exemptions were originally included in State Agreement Acts in order to entice development (see paragraph 2.2).
- 2.17 Many State Agreement Acts were entered into in the 1960s and 1970s, with the mining companies being responsible for building and establishing towns to service the mining operations. To provide relief to the major resource companies who provided the infrastructure in the local government authority districts, rating concessions were granted. As noted by Hon Tom Stephens MLC during debate in the Legislative Council:²⁷

The rating clauses in earlier agreements reflected the fact that most projects were located in remote regions far from existing townships. Under those agreements, companies were generally required to provide their own social infrastructure and services; for example, the

²⁶ 'Mining tenement' is defined under s8 of the *Mining Act 1978* as meaning a "prospecting licence, exploration licence, retention licence, mining lease, general purpose lease or a miscellaneous licence granted or acquired under this Act or by virtue of the repealed Act; and includes the specified piece of land in respect of which the mining tenement is so granted or acquired."

²⁷ Hon Tom Stephens MLC, Minister for Local Government and Regional Development, Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, October 15 2003, p11981.

town facilities, roads, police stations and schools. ... towns such as Newman, Tom Price, Paraburdoo and many other communities in which the companies were responsible for installing pretty much all the local infrastructure or, if not, for providing the specific infrastructure pursuant to their agreements. The need to quickly fund and establish infrastructure and services for new towns in remote locations was met through these state agreements.

- 2.18 Where that was not the case and the mining operations were located sufficiently remotely from established towns, a large demand was not imposed on services provided by the regional local government authority and thus rating concessions were granted.²⁸ As stated in the Joint Departmental Submission:²⁹

Historically, rating restrictions on project lands were imposed because many of the projects were located in remote areas away from established towns, with the companies making little or no demands on Local Government Authority services or facilities. In some cases, project developers built and operated towns and provided all social infrastructure, services and facilities.

As an example of the rationale behind rating clauses, in the early development of the iron ore industry in the Pilbara, rating capacity restrictions were a necessary tool to facilitate and establish towns, roads, railways, electricity and other infrastructure. The relevant Local Government Authorities of the day had limited capacity to plan, build or operate such infrastructure.

Effect of the operation of State Agreement Acts on local government authorities in regional areas

- 2.19 It has been submitted to the Committee that some local government authorities are disadvantaged by the rating restrictions imposed by State Agreement Acts, particularly those located in the Pilbara Region, the Shire of Collie and the Shire of Murray. The Committee was informed by the Western Australian Local Government Association (WALGA) that these local government authorities have been particularly affected by their inability to obtain necessary revenue levels for service provision.³⁰

²⁸ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p2.

²⁹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, pp9-10.

³⁰ See for example, Mr Bruce Wittber, Policy Manager, Governance, Western Australian Local Government Association, *Transcript of Evidence*, May 10 2004, pp3-4.

2.20 For example, the Shire of Boddington submitted that within its boundaries there is a bauxite mine which operates under a State Agreement Act and a gold mine which does not operate under a State Agreement Act. Rates received from the bauxite mine for its mining lease were \$12,315.46 in 2003-04; rates received from the gold mine for its mining lease were \$40,788.28 in 2003-04 and \$79,060 in rates on its infrastructure. As noted by the Shire of Boddington:³¹

The Gold Mine has been rated on Gross Rental Value while the Bauxite Mine pays rates on Unimproved Value - despite appearing to have infrastructure of similar value to the Gold Mine.

2.21 The Shire of Collie, which is impacted upon by four State Agreement Acts, submitted to the Committee that as a result of rating restrictions they receive approximately \$2,000 in land rates, while it is estimated that in excess of \$200,000 could benefit the Collie community in the event a GRV could be applied:³²

To place this inequity into some context another significant local retailing business in Collie, pays \$34, 000 in rates where Wesfarmers Premier Coal pays \$387 on their super (lot) mining lease, an obvious inequity when both employ staff within Collie and utilise the same community infrastructure.

2.22 Rates received by each local government authority in the Pilbara region from resource company property and mining lease areas subject to State Agreement Acts rating restrictions in 2002-03, in round terms, were:³³

- Shire of Ashburton: \$220,000 (7 percent of total rate revenue);
- Shire of East Pilbara: \$290,000 (9 percent of total rate revenue);
- Town of Port Hedland: \$30,000 (<1 percent of total rate revenue); and
- Shire of Roebourne: \$90,000 (1.5 percent of total rate revenue).

2.23 By comparison, in 2002-03 the Shire of Roebourne received \$334,643 from the Karratha City Shopping Centre.³⁴

³¹ Submission No 13 from the Shire of Boddington, January 23 2004.

³² Submission No 8 from the Shire of Collie, undated.

³³ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p6, (paper tabled at hearing held on May 3 2004).

³⁴ Submission No 19 from the Shire of Roebourne, January 28 2004.

2.24 The Pilbara Regional Council (PRC) submitted that:³⁵

The revenue foregone by Pilbara local governments due to their inability to rate land held under State Agreement Acts on a gross rental value basis is generally difficult and costly to assess. The Shire of Roebourne and the Town of Port Hedland are particularly affected by this restriction, given the significant industry and port infrastructure located within their Districts. It is considered that the rate revenue foregone for each of these local governments could be in the range of \$3 million to \$5 million per year. The revenue foregone due to restrictions on the rating of mining tenements in the Shires of Ashburton and East Pilbara total around \$2.4 million and \$1.2 million per year respectively.

2.25 The PRC submit that the low level of rate revenue contribution from the ‘major economic base’ of the Pilbara over a long term period (of more than 30 years) has impacted severely on the financial position of Pilbara local government authorities and placed a huge financial burden on the Pilbara local communities:³⁶

The financial burden imposed on Pilbara local governments and communities by these provisions is unsustainable. All four Pilbara councils will be in financial difficulty within the next 5 years, with the Town of Port Hedland already having to consider substantial reductions in services due to ageing infrastructure and an inadequate financial base to properly maintain or replace these assets.

2.26 The Committee was advised that the rating restrictions, the operation of State Agreement Acts and the added burden this places on local government authorities in terms of meeting infrastructure and service needs, has resulted in the rates burden falling on a small number of ratepayers.³⁷ For example, PRC submitted that the low rate of revenue contribution from the mining companies has led to local government rates on residential and commercial properties as being among the highest in the State.³⁸ The Shire of Roebourne noted:³⁹

While the Shire’s major economic activity is resource development the majority of its rate income is generated by residential rates.

³⁵ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p3, (paper tabled at hearing held on May 3 2004).

³⁶ Ibid, p3 and p6.

³⁷ See for example Submission No 13 from the Shire of Boddington, January 23 2004; and Submission No 8 from the Shire of Collie, undated.

³⁸ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p6, (paper tabled at hearing held on May 3 2004).

³⁹ Submission No 19 from the Shire of Roebourne, January 28 2004.

- 2.27 The cost burden is such that the local government authorities are finding that they have to reduce their expenditure on programs and services.
- 2.28 The main issues raised by these affected local government authorities are:
- i) the increased reliance on revenue sources other than rates in comparison with other local government authorities; and
 - ii) the cost burden of infrastructure development and maintenance.

Reliance on other sources for revenue compared with other local government authorities

- 2.29 Income from rates, in most instances, is the major source of revenue for local government authorities.⁴⁰ The *Local Government Act 1995* provides that general rates apply on all rateable land within a local government district. Local government authorities impose rates to make up any budget deficiency when adopting the annual budget.⁴¹ That is, when all of the local government authority's required expenditure and all other revenue sources have been quantified, a residual revenue requirement will arise. General rates are used to fund this residual.⁴²
- 2.30 Some local government authorities in regional areas generally receive less than 20 percent of their operating revenue through rates and have had to rely on other sources for revenue. This is compared with some local government authorities in the metropolitan area that receive more than 70 percent of their operating revenue through rates.⁴³

Cost burden of infrastructure development and maintenance

- 2.31 A significant number of local government authorities in regional areas where State Agreement Acts operate have submitted that they are experiencing the cost burden of infrastructure provision and maintenance associated with the resource project.
- 2.32 The Shire of Boddington in its submission stated that the Boddington Bauxite Mine, which operates under a State Agreement Act, resulted in an added cost burden for the Shire due to, for example, the necessity to extend the footpath network, the need for more street lighting, a requirement to seal town streets to eliminate dust problems, the need to employ additional staff to cope with increased activity, the provision of better

⁴⁰ Submission No 21 from the City of Rockingham, January 27 2004, p1. Section 6.15, *Local Government Act 1995*, provides that a local government may raise revenue or income from: rates; fees and service charges; borrowings; investments; any other source (provided it is authorised in the Act or another written law); dealings in property; or grants or gifts.

⁴¹ Section 6.32, *Local Government Act 1995*.

⁴² http://www.nol.gov.au/publications/infrastructure_financing_manual/appendix_b.htm#91, (current at March 24 2004).

⁴³ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p17.

sporting facilities and playgrounds.⁴⁴ As noted by the South West Development Commission:⁴⁵

The impost on local governments arises in other forms such as maintaining, upgrading and replacing infrastructure that is initially established for a major project.

The Pilbara Region

- 2.33 The PRC have submitted that infrastructure provision and maintenance is proving extremely difficult for local government in the Pilbara region, with the Pilbara local government authorities experiencing increasing difficulties funding the maintenance and improvement of basic community facilities such as streets, footpaths, parks and recreation facilities. They further submitted that this is exacerbated by the inheritance of ageing infrastructure and also by the provision of infrastructure by industry and government without any funding for the ongoing maintenance of the infrastructure.⁴⁶

Ageing infrastructure

- 2.34 Many towns in the Pilbara (including Newman, Tom Price, Pannawonica, Paraburdoo, Wickham and Dampier) were initially built by the mining companies that were established in the area during the 1960s and 1970s. The estimated mine life at that time was only approximately 20 to 25 years and thus the infrastructure was built with a similar life expectancy. At the time the infrastructure was reaching the end of its natural life, responsibility for them was passed from the companies to the local government authorities, that is, the towns were 'normalised'.⁴⁷ The Pilbara Development Commission submitted that the local government authorities inherited ageing infrastructure, such as community halls, swimming pools and recreation facilities, which required substantial funding for maintenance and replacement.
- 2.35 The mining companies paid the local government authorities for the maintenance and provision of the facilities and infrastructure which were transferred from the company to the Shires.⁴⁸

⁴⁴ Submission No 13 from the Shire of Boddington, January 23 2004.

⁴⁵ Submission No 14 from the South West Development Commission, January 27 2004.

⁴⁶ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, pp6-8, (paper tabled at hearing held on May 3 2004).

⁴⁷ Submission No 29 from the Pilbara Development Commission, February 19 2004, p3.

⁴⁸ Payments are made according to the provisions of the 'Deeds of Normalisation' which detail the terms of the normalisation. Normalisation payments typically include an up front payment, followed by a diminishing scale of payments, generally over a 10 year period. Towns that have or are currently undergoing normalisation are Newman, Tom Price, Paraburdoo and Dampier.

2.36 However, the PRC has submitted that the normalisation payments have not been sufficient to generate asset replacement reserves:⁴⁹

The problem for these local governments today is that many of the facilities provided in part or whole by mining companies 30 years ago are now in desperate need of upgrading or replacement and there is insufficient rate revenue to fund this need ...

2.37 The Committee notes that industry and State Government have made capital contributions to infrastructure improvement, such as in Karratha in the 1980s as part of the development of the North West Shelf and the South Hedland Enhancement Scheme in the mid 1990s. However, it is submitted that no additional ongoing funding has been allocated to local government authorities to properly maintain the additional infrastructure resulting from these capital projects.⁵⁰

2.38 The PRC submitted that as a result, many of these improvements have become an additional annual financial burden on the residential and small business ratepayers of each local government authority.⁵¹

Other factors contributing to the high cost of infrastructure

2.39 The Pilbara Regional Infrastructure Audit report noted a number of problems encountered in the Pilbara relating to infrastructure that distinguishes them from other local government authorities in WA. These include:⁵²

- remoteness reduces the ability of local government authorities to achieve economies of scale in infrastructure provision, and allows monopoly pricing by some suppliers;
- large distances between towns within each local government authority create the necessity to duplicate community facilities in each town. They also add to the cost of infrastructure repairs and maintenance due to considerable travel times and higher costs;
- difficulty of attracting and keeping people in the towns, and the extremes of climate leads to the need for a higher level of infrastructure provision; and
- high wear and tear on infrastructure caused by climatic extremes (such as, cyclones, extreme heat), anti-social behaviour, insects and so on.

⁴⁹ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p12, (paper tabled at hearing held on May 3 2004).

⁵⁰ Ibid, p8.

⁵¹ Ibid, p8.

⁵² Pilbara Regional Council, *Pilbara Regional Infrastructure Audit Report*, December 2003, p4.

- 2.40 The PRC submitted fly-in/fly-out workers are also placing added pressure on the local government authorities as the use of fly-in/fly-out operations by mining companies further restrict the potential of local government authorities to expand their rating base.⁵³ Fourteen percent of the Pilbara's population is fly-in/fly-out workers who are routine users of the facilities provided by local government authorities.⁵⁴

Local government contribution to mining companies

- 2.41 The Committee notes that local government authorities make contributions to the mining companies indirectly by providing community services and facilities for their workforce. As stated by Mr Kevin Richards, Chairperson, PRC:⁵⁵

We have a great influx of fly in, fly out people. Fifty per cent of the players in our local football club, the Kats, of which I am a life member, are fly in, fly out people. We have to cater for another 4 000 people in our town who do not pay any rates; they live in camps and places like that. However, we have to supply facilities such as gymnasiums, ovals and golf courses to a whole lot of people who do not provide any income at all to the area. That is an extra cost.

...

We must supply recreational facilities for people who do not play any part in them.

The level of financial imposition on local government as a result of State Agreement Acts

- 2.42 The actual level of financial imposition on local government authorities as a result of the rating restrictions imposed by State Agreement Acts has not, to date, been ascertained.
- 2.43 Valuations have not been undertaken to determine the GRV of land under State Agreement Acts that are currently rated at the UV rate. The Committee has been advised that such valuations would incur a high cost, be time intensive and necessitate the use of external consultants. As stated by Mr Gary Fenner, Valuer General:⁵⁶

The cost to complete data capture and the initial valuations of all properties subject to a SAA could reasonably fall within a range of

⁵³ Mr Kevin Richards, Chairperson, Pilbara Regional Council, *Transcript of Evidence*, May 3 2004; and Pilbara Regional Council, *Pilbara Regional Infrastructure Audit Report*, December 2003, p49.

⁵⁴ Ms Janine Watts, *Best of Both Worlds? Seeking a Sustainable Regional Employment Solution to Fly In - Fly Out Operations in the Pilbara*, Pilbara Regional Council, undated, p7.

⁵⁵ Mr Kevin Richards, Chairperson, Pilbara Regional Council, *Transcript of Evidence*, May 3 2004, p6.

⁵⁶ Letter from Mr Gary Fenner, Valuer General, A/Executive Director Information Services, Department of Land Information, April 20 2004, p3.

\$1,000,000 to \$1,500,000 overall, and thereafter, \$75,000 per annum for cyclical revaluations. The current general valuation cycle for gross rental ranges from 3 in the metropolitan area and 3-5 years in the balance of the State.

- 2.44 The Auditor General's view is that it is difficult to objectively assess financial and non-financial impacts of State Agreements, such as the impact on local government authorities. This can be attributed to the Department of Industry and Resources seeing its role as primarily facilitative, establishing State Agreements and assisting companies resolve government regulatory issues:⁵⁷

It does not follow a structured process to evaluate how well Agreements are achieving their objectives, where they have succeeded and failed, identify any unintended outcomes and what lessons can be learned.

Department of Industry and Resources Study

- 2.45 The Committee notes that the Department of Industry and Resources has recognised that an information gap exists on the economic impact of the rating restrictions contained in State Agreement Acts. The Department of Industry and Resources has advised the Committee that they will be undertaking a study to address a number of issues relevant to State/local government relations. This will include a study into the local government rates issues using a representative sample of up to eight State Agreement projects in various parts of the State. The purpose of this area of study will be to provide information on:⁵⁸

- rates currently paid by the selected State Agreement projects;
- rates payable if it were not for the ratings clauses in the State Agreement Acts;
- details of voluntary payments and current contributions made by the selected companies to local government authorities, community programs and community infrastructure; and
- details of other payments made by State Agreement companies to local government revenue.

- 2.46 The Department of Industry and Resources has advised that they do not envisage that the study will be completed until the first or second quarter of 2005.⁵⁹

⁵⁷ Letter from Mr D D R Pearson, Auditor General, Office of the Auditor General, July 22, 2004.

⁵⁸ Letter from Dr Jim Limerick, Director General, Department of Industry and Resources, June 8 2004.

⁵⁹ Ibid.

Rationale behind the rating system applying to future State Agreement Acts

- 2.47 Some local government authorities submit that the reasons for granting rating concessions and exemptions may no longer apply today and that the continuing imposition of the rating restrictions may no longer be valid.

Council understands the rationale behind such rating clauses, which was to entice development and provide relief to the major resource companies who were predominantly responsible for much of the community infrastructure costs in the Pilbara. While this held true through the development phase of major projects the same cannot be said now as this infrastructure ages and local governments are being required to fund the cost of upgrades, replacement and ongoing maintenance and operating expenses.⁶⁰

And

While there may be some argument to support companies receiving a variety of benefits from Government in the early stages of development, it is difficult to justify these benefits continuing when a company has become well established, profitable and part of the international economy. The payment of rates by such a company would be minor in the scheme of things but it is a major loss to the relevant Local Government.⁶¹

- 2.48 The Committee notes that the Department of Treasury and Finance recognises that the rationale behind the rating system applying to past State Agreement Acts, that is to entice development and provide relief to the major resource companies who were predominantly responsible for much of the community infrastructure costs, does not necessarily apply to new and future State Agreement Acts:⁶²

Today, for new and proposed state agreement Acts, it is recognised that circumstances may have changed and that the best approach may not be to include any restrictions on ratings in the agreement Acts but, rather, leave it to the local government authority to negotiate with the mining company over what a fair valuation and rating system might be in that particular circumstance.

⁶⁰ Submission No 19 from the Shire of Roebourne, January 28 2004.

⁶¹ Submission No 28 from the Shire of Murray, February 2 2004, p2.

⁶² Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p2.

2.49 In relation to future State Agreements, the Minister for Local Government and Regional Development has stated that:⁶³

With regard to future agreements, the Government is considering options with a view to developing a position that will meet state and local government needs while not impeding the State's attractiveness as an investment destination for major resource developments.

2.50 The Joint Departmental Submission advises of the State Government's position in relation to future State Agreement Acts:⁶⁴

- a) future State Agreement Acts will not automatically impose rating restrictions on local government authorities and the State will not generally seek to include such provisions in State Agreement Acts;
- b) it is most likely that project lands under future State Agreement Acts will be valued and rated according to current laws;
- c) the State will confer with the relevant local government authority if any consideration is given to a possible limit on a local government authority's rating powers by virtue of a State Agreement. The State will endeavour to negotiate an outcome acceptable to the proponent, the local government authority and the State Government;
- d) State Agreement Acts will continue to provide that discriminatory rates and charges cannot be levied on company project lands; and
- e) existing State Agreement Acts can only be amended with the agreement of the parties.

2.51 The Committee wrote to the Minister for State Development asking what factors are to be taken into consideration when deciding whether to include or not include rate restriction provisions in future State Agreement Acts. In response, the Minister for State Development advised that:⁶⁵

A decision on whether a rating clause is to be included in a future State Agreement Act will be made on a case-by-case basis, at the discretion of the Minister for State Development.

⁶³ Hon Tom Stephens MLC, Minister for Local Government and Regional Development, Western Australia, Legislative Council, *Parliamentary Debates (Hansard)*, October 15 2003, p11980.

⁶⁴ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p11.

⁶⁵ Letter from Hon Clive Brown MLA, Minister for State Development, July 9 2004.

It should be noted that the Protocol will require any proposal that affects local government revenue to be the subject of prior consultation between DoIR and the relevant local government.

It should also be noted that all State Agreements are subject to Parliamentary scrutiny and ratification.

- 2.52 The Joint Departmental Submission states that the two most recent State Agreement Acts do not contain clauses restricting the ability of local government authorities to rate the projects.⁶⁶

Protocol

- 2.53 The Committee notes that in relation to future State Agreements the State Government has increased its commitment to consult with local government authorities. A protocol has been developed which will require any proposal that affects local government revenue to be the subject of prior consultation between the Department of Industry and Resources and the relevant local government authority.⁶⁷ The Minister for State Development advised that the protocol has been endorsed by State Cabinet and by the State Council of WALGA.⁶⁸
- 2.54 The protocol establishes a consultative process for future State Agreements (including major variations to existing Agreements and the facilitation of major resources projects generally). The protocol was jointly developed by the Department of Industry and Resources (on behalf of the Minister for State Development), WALGA and the Department of Local Government and Regional Development (on behalf of the Minister for Local Government and Regional Development).
- 2.55 The purpose of the protocol is to ensure that local government authorities are fully consulted in regard to major resources projects within their boundaries. To this end the protocol establishes a broad set of principles and procedures that will facilitate communication and discussion.⁶⁹

⁶⁶ These are the *Wood Processing (Wesbeam) Agreement Act 2002* and the *Barrow Island Act 2003 - Gorgon Gas Processing and Infrastructure Project Agreement*. Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p11.

⁶⁷ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p5.

⁶⁸ Letter from Hon Clive Brown MLA, Minister for State Development, July 9 2004.

⁶⁹ *Local Government and Department of Industry and Resources Protocol for future State Agreements and resource projects of significance to the State*, July 28 2004.

- 2.56 The Minister for State Development has advised the Committee that the protocol formalises procedures that are already in place for consultations between the Department of Industry and Resources and local government authorities.⁷⁰
- 2.57 The protocol was signed by the Minister for State Development, the Minister for Local Government and Regional Development and the President of WALGA on July 28 2004.⁷¹
- 2.58 The Committee notes that the lack of consultation between the parties affected by the Agreements, such as local government authorities, in the State Agreement Acts process to date has been a major source of discontent amongst some local government authorities.⁷²

COMMITTEE COMMENT

- 2.59 The majority of the Committee notes that the rating concessions and exemptions provided to companies under State Agreement Acts have disadvantaged certain local government authorities. Their inability to rate the resource projects at GRV has led to their increased reliance on revenue sources other than rates. They are unable to obtain the necessary revenue levels to provide the services and maintenance that they are required to provide. They are experiencing the added burden of infrastructure provision and maintenance associated with resource projects, without the necessary revenue.
- 2.60 The Committee notes that the rationale behind the rating system applying to past State Agreement Acts does not necessarily apply to new and future State Agreement Acts and that this has been acknowledged by the State Government.
- 2.61 The Committee is of the view that if there are to be future State Agreement Acts it is important to ensure that local government authorities are not unfairly disadvantaged. In this regard the Committee notes the Government's intention is that future State Agreement Acts will not automatically impose a rating concession or exemption.
- 2.62 The Committee is also of the view that if negotiating a future State Agreement Act the State should take into consideration the impact upon a local government authority and the local community it services. This should include the contributions made by local government authorities to support resource projects and the employees.

⁷⁰ Letter from Hon Clive Brown MLA, Minister for State Development, July 9 2004.

⁷¹ Hon Clive Brown MLA and Hon Tom Stephens MLC, *New protocol to improve consultation with local governments on State agreements*, Media Statement, July 28 2004.

⁷² See for example, The Public Accounts and Expenditure Review Committee (PAERC) Report No 31; Submission No 26 from the Western Australian Local Government Association, January 2004; and Submission No 32 from the Regional Development Council, undated.

- 2.63 The Committee notes that the protocol discussed at paragraphs 2.53 to 2.57 provides a broad set of principles and procedures that will facilitate communication and discussion between the Department of Industry and Resources and relevant local government authorities in regard to projects of significance to the State, future State Agreement Acts and major variations to existing State Agreement Acts.
- 2.64 The Committee further notes that the protocol provides, among other things, that where a State Agreement Act is required, the Department of Industry and Resources will, prior to the commencement of the negotiations and during negotiations as issues arise, consult with the relevant local government(s), in regard to all matters that may affect the local government(s).
- 2.65 The Committee is of the view that where a decision of the Department of Industry and Resources may significantly impact upon the local government authority's revenue and administration, then the local government authority should be afforded independent expert advice to assist the local government authority during the consultation process.
- 2.66 The Committee is of the view that all local government authorities should have access to independent expert advice during such consultation. The Committee understands however, that of the 142 local government authorities in WA, some may have budgetary constraints hindering their ability to employ professional advisers.
- 2.67 In addition the Committee considers that a 'whole of local government' approach to the general issues facing local government authorities as a result of State Agreement Acts is desirable. The Committee considers that the representation of the views of local government authorities to these general issues be appropriately coordinated and represented to Government by WALGA.

Recommendation 1: The Committee recommends that if there are to be future State Agreement Acts that:

- they do not automatically impose rating restrictions on local government authorities; and
- the State will not generally seek to include such provisions in State Agreement Acts, consistent with recent practice.

Recommendation 2: The Committee recommends that the current *Local Government and Department of Industry and Resources Protocol for future State Agreements and resource projects of significance to the State* be maintained.

Recommendation 3: The Committee recommends, in order to ensure that local government authorities (when being consulted about a future State Agreement Act) are not precluded by budgetary constraints from obtaining independent expert advice, that the State Government examines and considers making available reasonable financial provision for such independent expert advice.

CHAPTER 3

FUNDING SUPPORT TO REGIONAL WA

INTRODUCTION

3.1 Major funding support to the State's regions comes from:

- the State and the Commonwealth Governments in the form of grants and subsidies; and
- industry, in various forms.

COMMONWEALTH GOVERNMENT FUNDING SUPPORT TO REGIONAL WA

3.2 Local government authorities receive direct funding from the Commonwealth in the form of specific purpose payments and financial assistance grants.

Specific purpose payments to local governments

3.3 Specific purpose payments to local government authorities are payments made by the Commonwealth to local government for particular policy purposes. The main payments in this category relate to the Roads to Recovery program, child care programs administered by local government on behalf of the Commonwealth and funding for aged and disabled persons homes.⁷³

3.4 Specific purpose payments are highly variable and differ from year to year. In 2002-03, WA local government authorities received \$35 million in specific purpose payments from the Commonwealth, which included \$29 million under the Roads to Recovery Program and \$3 million each for Aged Care and Children's services.⁷⁴

3.5 By contrast in 2003-04, WA local government authorities received more than 50 percent higher specific purpose payments over 2002-03, with specific purpose payments totalling over \$55 million.⁷⁵

⁷³ *The Commonwealth Federal Budget 2003-04: A local government perspective*, <http://www.alga.asn.au/policy/economics/federalBudget2003/03.localGovernmentFunding/index.php?id=ddc37078621832e3106993cdf99bc174>, (current at August 18 2004).

⁷⁴ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p29.

⁷⁵ *The Commonwealth Federal Budget 2003-04: A local government perspective*, <http://www.alga.asn.au/policy/economics/federalBudget2003/03.localGovernmentFunding/index.php?id=ddc37078621832e3106993cdf99bc174>, (current at August 18 2004).

- 3.6 In addition to these grants, local government authorities in WA will receive \$45 million in 2003-04 for local roads under the Commonwealth Government's Roads to Recovery Program.

Financial assistance grants to local governments

- 3.7 The *Local Government (Financial Assistance) Act 1995* (Cth) provides for the determination of the total national grant figure, the allocation of the funds to each State and the conditions governing the payment of money to the States for distribution to local government authorities.⁷⁶
- 3.8 Financial assistance grants to local government authorities are divided into two categories - general purpose grants and road funding.
- 3.9 General purpose grants are provided to the States and Territories on an equal per capita basis using state populations.⁷⁷ Road funding is distributed among the States and Territories based on previous years' share of the national pool (a fixed share inherited from pre-1991 tied grants arrangements).⁷⁸
- 3.10 The total amount of Commonwealth grants to WA local government authorities over the past five years is provided in Table 3.1 below. The funding is provided as untied grants, which the local government authorities may use for whatever purposes they choose.

Table 3.1

Total Financial Assistance Grants to Local Government in WA⁷⁹

	1998-99	1999-00	2000-01	2001-02	2002-03
GPF ⁸⁰	82.7	85.9	90.0	94.2	99.0
Roads	57.7	59.4	62.1	65.0	69.0
Total	\$140.4m	\$145.3m	\$152.1m	\$159.2m	\$168.0m

⁷⁶ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p2.

⁷⁷ *The Commonwealth Federal Budget 2003-04: A local government perspective*, <http://www.alga.asn.au/policy/economics/federalBudget2003/03.localGovernmentFunding/index.php?id=ddc37078621832e3106993cdf99bc174>, (current at August 18 2004).

⁷⁸ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p2.

⁷⁹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p26.

⁸⁰ General Purpose Grant Funding.

- 3.11 Local government authorities in WA will receive \$173.37 million in financial assistance grants from the Commonwealth Government in 2003-04 for local roads and the provision of other local government services. This is 11.49 percent of the national total of assistance provided to local government.⁸¹
- 3.12 The Western Australian Local Government Grants Commission (WALGGC) is responsible for determining the allocation of the funds between local government authorities across WA. It is a statutory authority established under State legislation.⁸²

General purpose grants

- 3.13 In determining the distribution of general purpose grants the WALGGC follows the National Principles which are set by the Commonwealth. The National Principles are attached as Appendix 6. The WALGGC's primary aim in determining the allocations to each local government authority is to ensure that each local government has the same capacity to provide an average level of service. This is known as 'horizontal fiscal equalisation'.⁸³
- 3.14 The WALGGC calculates the amount of funding (or equalisation requirement) of each local government authority. This amount is the difference between the assessed revenue raising capacity and the assessed expenditure need. The capacity is relative to State averages.⁸⁴ (Note, it is the WALGGC assessment of the local government authority's situation, rather than their actual budgetary position).⁸⁵
- 3.15 The WALGGC takes into consideration that certain local government authorities are disadvantaged in their ability to raise revenue or provide a service by factors such as location, population dispersion and climate. The WALGGC has developed a range of disability factors, which are applied to the standards. The disability allowances are added to the expenditure standards to reflect local circumstances impacting on the cost of local government operations.
- 3.16 Once the equalisation amount has been calculated it is then adjusted, based on the following three factors:

⁸¹ Hon Wilson Tuckey MP, Federal Minister for Regional Services, Territories and Local Government, *Australian Government Funding for Local Government in Western Australia*, Media Statement, August 11 2003.

⁸² The WALGGC was established under the *Local Government Grants Act 1978* for the purpose of determining the distribution of Commonwealth grants to local government authorities in WA.

⁸³ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p3. For further information on the grants process and the methods used to achieve the calculations see the WALGGC website: <http://www.dlgrd.wa.gov.au/localGovt/grantsComm/overview.asp>, (current at November 2 2004).

⁸⁴ Mr John Lynch, Chairman, WA Local Government Grants Commission, *Transcript of Evidence*, April 19 2004, p2.

⁸⁵ Letter from Mr John Lynch, Chairman, WA Local Government Grants Commission, May 4 2004.

- 3.16.1 *The Minimum Grant Provision.* Federal legislation requires that local government authorities do not get less than 30 percent of what they would have been allocated had the funding been distributed solely on the basis of population.
- 3.16.2 *Average Equalisation Requirement.* A four-year rolling average of the equalisation requirement is used to provide a measure of stability to the grant allocations.
- 3.16.3 *Factoring Back.* The difference between the amount required and the amount available from the Commonwealth means that the equalisation requirement for each local government authority must be ‘factored back’ by a common percentage which varies from year to year.
- 3.17 Every local government authority is entitled to a minimum grant, irrespective of their financial needs. The minimum grant, as stated above, is 30 percent of the funds that each authority would receive if the funds were distributed simply on a population basis. Should the WALGGC assess a surplus, that is, the local government authority is able to afford to provide above average services to their community or charge below average rates and charges, the local government authority still receives an allocation:⁸⁶
- If the WALGGC assess a local government authority grant to be less than what they would have received if 30 percent of funds were allocated on a population basis, the local government authority receives the higher figure.*
- 3.18 Approximately 80 percent of the Commonwealth grants were allocated to rural and regional local government authorities in recognition that these local government authorities have relatively higher costs in providing services or relatively lower ability to raise revenue and thus should receive relatively higher grants.⁸⁷

Road funding

- 3.19 The distribution of road funding to local government authorities by the WALGGC is determined, as far as practicable, on the basis of the relative needs of each local government authority for roads expenditure and preservation of its road assets.⁸⁸ The WALGGC allocates funding using the Asset Preservation Model, which recognises

⁸⁶ Mr John Lynch, Chairman, WA Local Government Grants Commission, *Transcript of Evidence*, April 19 2004, p2.

⁸⁷ Hon Wilson Tuckey MP, Federal Minister for Regional Services, Territories and Local Government, *Australian Government Funding for Local Government in Western Australia*, Media Statement, August 11 2003.

⁸⁸ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p3.

the existing (identified) road assets of each local government authority, and regional differences in the cost of maintenance.⁸⁹

Commonwealth grants to local governments under State Agreement Act restrictions

3.20 The WALGGC includes, in its assessment, the valuations that the local government authorities use to levy rates. The WALGGC in their submission stated that:⁹⁰

In the case of Agreement Acts, the Commission includes in its assessment the valuations that the local governments use to levy rates. The Commission notes that local governments are restricted in using GRV as the basis for rating, and this constraint is not specifically recognised in the grant allocation process. Essentially, the Commission uses the valuations the councils use, not some hypothetical valuation.

3.21 Thus, the rating restrictions provided by State Agreement Acts that apply to some local government authorities are not considered during the grants allocation process. Grants to the local government authorities affected by State Agreement Acts are calculated and allocated according to the same methodology that is applied to all local government authorities in the State.

3.22 Whilst the grant that a local government authority receives may be large, this would be attributed to the gap between the revenue and expenditure of the local government authority. As stated by Mr John Lynch, Chairman, WALGGC:⁹¹

... because we are only assessing those properties on unimproved value, their revenue capacity is lower in our formulas than it otherwise would be, and therefore the gap between expenditure needed and revenue capacity is greater. We do not actually make a calculation about what they would get if they could rate on GRV; we just accept the status quo, that the valuation on UV is X -

...

We just assess their revenue capacity, and because it is UV versus GRV, their revenue capacity is somewhat less, and that increases the grant gap.

⁸⁹ Ibid, p5. For further information on the Asset Preservation Model see: WA Local Government Grants Commission, *Information Paper Allocation of Commonwealth Financial Assistance Grants*, September 2003.

⁹⁰ Ibid, p9.

⁹¹ Mr John Lynch, Chairman, WA Local Government Grants Commission, *Transcript of Evidence*, April 19 2004, pp12-13.

...

We do compensate them, if you like, for their loss now, but indirectly; we do not do it in a direct sense, but the fact that they can only rate at the level they can means they get more of a grant, so inherent in the calculations is a benefit to them because they cannot rate on GRV.

Impact of a change in the revenue of local government

- 3.23 The grant allocation process is responsive to changes in local government revenue capacity and local government expenditure needs. The grants received by each local government authority reflect the relative difference between these two sides of the equation. Allocations will vary from year to year due to changes in the underlying data (such as the annual updates in populations and valuations), changes in methodology (including changes to the basis for calculating revenue and expenditure standards, and disability factors) and the WALGGC recognising issues raised in submissions from local government authorities.⁹²
- 3.24 Where there is an increase in the local government rate revenue capacity it would be expected that there would be a reduction in the amount of financial assistance grants, everything else being equal.⁹³ Under equalisation principles, an increase in own source revenue capacity reduces the need for a share of equalisation funding.⁹⁴ This is not necessarily dollar for dollar (matching the revenue increase with the grant allocation decrease) as a factor back percentage may need to be applied because the amount of funds available is less than the amount of funds required⁹⁵ (see paragraph 3.16.3).
- 3.25 For 2003-04, the equalisation requirement was factored back by 93.8 percent of the calculated equalisation requirement, and local government authorities only received this proportion of their requirement.⁹⁶

The grant actually paid to councils in 2003-04 was therefore based on approximately 94% of the average grant need.

- 3.26 As stated above, generally an increase in the income capacity assessment will reduce the grant and an increase in an expenditure assessment will increase the grant. To have full impact the change must be greater than the State average change. Therefore, an above average change to an allowance of \$10,000 in the assessment will result in

⁹² Letter from Mr John Lynch, Chairman, WA Local Government Grants Commission, April 1 2004.

⁹³ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p9.

⁹⁴ Letter from Mr John Lynch, Chairman, WA Local Government Grants Commission, April 1 2004.

⁹⁵ Ibid.

⁹⁶ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p5.

an eventual cash change in the grant of about \$9,380.⁹⁷ The Committee notes that any increase in the allowance would result in a percentage reduction of the grant. Mr Ray Hadlow, Director, Mansell Pty Ltd advised that this change would be phased in over a number of years.⁹⁸ As stated by Mr Ray Hadlow:⁹⁹

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.

...

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.

...

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.

3.27 The revenue raising and expenditure policy decisions made by local government authorities will not, however, affect the WALGGC assessments and grant determinations. This is due to the effort or policy neutral approach that the WALGGC is required to use when assessing the expenditure requirements and revenue capacity

⁹⁷ Paper tabled by Mr Ray Hadlow, Director, Mansell Pty Ltd at hearing held on April 5 2004, *Briefing notes on the Western Australian Local Government Grants Commission*.

⁹⁸ Ibid.

⁹⁹ Mr Ray Hadlow, Director, Mansell Pty Ltd, *Transcript of Evidence*, April 5 2004, pp9-10.

of each local government authority (see Appendix 6). As stated in the WALGGC submission:¹⁰⁰

For example, it is not true that a local government that increases or decreases its level of rating will receive an increased grant allocation from the WALGGC; the actual rating policy does not materially affect the grant determination outcome.

- 3.28 The WALGGC has stated that the reduction in grants to a council that receives a compensation payment is not inappropriate.¹⁰¹

Non-rate revenue

- 3.29 The WALGGC takes into account extraordinary or other revenue, which includes some additional non-rate revenues received by local government authorities, in its revenue assessment process. This includes, for example, the monies received by local government authorities from mining companies which were received under the terms of agreements relating to the normalisation of northern mining towns. The WALGGC believes that these local government authorities have a revenue advantage relative to other local government authorities in the State and therefore the WALGGC should include such income in its assessment.¹⁰²

- 3.30 There is some opposition to this from some local government authorities such as the Shire of East Pilbara and the Shire of Ashburton. The WALGGC, however, has stated its position as follows:¹⁰³

The Commission has weighed up the views expressed by the councils, the National Principles, and the interests of all other local governments in the State, and has taken the view that these contributions have given the Shires of Ashburton and East Pilbara a revenue advantage relative to other councils. Previous advice received by the LGGC from the Commonwealth Grants Commission suggests that it is reasonable and appropriate for the Commission to assess this type of revenue.

Committee Comment

- 3.31 The Committee notes that there is a strong reliance on grants and subsidies by local government authorities in rural and regional areas. The Joint Departmental Submission states:¹⁰⁴

¹⁰⁰ Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p3.

¹⁰¹ Letter from Mr John Lynch, Chairman, WA Local Government Grants Commission, April 1 2004.

¹⁰² Submission No 27 from the WA Local Government Grants Commission, February 6 2004, p7.

¹⁰³ Ibid, p8.

Some 45 local governments (29 rural and 16 remote local governments) depend on grants and subsidies for more than 50 percent of their revenue. Generally, local government authorities in rural and remote areas are far more dependent on grant funding than urban and regional. The aspect of grant financing can, therefore, have a far greater effect on the financial security of more isolated local governments.

- 3.32 There is a limited amount of overall Commonwealth funding, which is not sufficient to meet the needs of all local government authorities and thus achieve equalisation.¹⁰⁵
- 3.33 The effect of this limit is compounded by the minimum grant provision given to a local government authority regardless of whether there is a demonstrated fiscal and community service need, which further inhibits the achievement of equalisation.¹⁰⁶
- 3.34 The Committee notes that the local government authorities whose revenues are directly affected by State Agreement Act rating concessions and exemptions are not compensated directly for the loss of rate revenue through the grants process.
- 3.35 However, a rate revenue restriction entailed in a State Agreement Act would, for most local government authorities, increase the value of its grant payment to more than it would otherwise be, as the gap between revenue and expenditure would be larger.
- 3.36 The Committee notes that extraordinary or other non-rate revenue sources of a local government authority, such as a compensation payment, in some instances lead to a decrease in their grant allocation. This is further discussed in paragraph 4.15.

STATE GOVERNMENT FUNDING SUPPORT TO REGIONAL WA

- 3.37 The State Government provides funding support to the regions in the form of services, capital works programs, grants and program funding.¹⁰⁷

*The Western Australian Government provides access to a range of services across the State, as well as assisting local governments directly. In addition, there are programs to attract new investment, encourage job creation, promote business growth and expand export opportunities in regional Australia.*¹⁰⁸

¹⁰⁴ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p18.

¹⁰⁵ Ibid, p27.

¹⁰⁶ Ibid, p27.

¹⁰⁷ Ibid, p13.

¹⁰⁸ Ibid, p13.

Services

3.38 The State funds general State government services that assist the regions, such as health, police, education and state roads. However, these contributions to services in regions do not pass through the hands of the local government authorities.¹⁰⁹

Grant and program funding

3.39 The WA Government provides the opportunity for local government authorities to access specific grants and program funding for local activities. Grant and program funding cover all the financial assistance provided directly by the State Government to local government authorities.¹¹⁰

3.40 Grant and program funding to local government authorities is provided across a broad range of programs, including, for example, road funding, regional investment, country housing, community safety, recycling and regional airports development.¹¹¹

3.41 Specific purpose funding to local government authorities includes, but is not limited to, the following:¹¹²

- Road funding - \$93.9 million in 2001-02;
- Heritage funds;
- Funding for sport and recreation facilities - more than \$9 million in 2002-03;
- Regional Investment Fund - \$75 million over four years;¹¹³
- Country Housing - \$1 million in 2002-03;
- Community safety - \$1 million in 2001-02;
- Cycleways - over \$1.2 million in 2002-03;
- Recycling - more than \$2 million each year;
- Lotteries Commission - \$6.3 million in 2000-01; and

¹⁰⁹ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p5.

¹¹⁰ Ibid, p5.

¹¹¹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, pp29-31.

¹¹² Ibid, pp29-31.

¹¹³ This includes funding over the next three years to the Port Hedland and Roebourne Town Enhancement Schemes for the improvement of infrastructure including amenities, community, sporting and cultural facilities, and coordination and delivery of government services.

- Regional Airports Development - \$14 million.

3.42 Generally, the WA Government does not provide grants to *defray core operational funding*.¹¹⁴ Grants are provided, on application by the local government authority, to assist local governments in improving service delivery to their community. Grants are approved on the basis of quality and feasibility of submitted proposals. Some programs are specifically available to regional, rural and remote areas.¹¹⁵ A list of the grants and other assistance programs available to communities in WA is provided in the *Grants Directory*.¹¹⁶

3.43 On how grants can be accessed, the Joint Departmental Submission stated that:¹¹⁷

Accessing specific grants can be competitive and a local government funding commitment is often required to be successful in obtaining the grants. Local government capacity to prepare project proposals, applications and submission is a critical factor in leveraging resources from grant funding programmes. Investment in time and skills is required to complete the detailed proposals, submission and business plans required. Demonstration of financial management capacity is now considered as a pre-requisite for approval in most grant programmes to ensure accountability and financial acquittal of funds received.

A local government view

3.44 The Shire of Roebourne submitted to the Committee that whilst the State Government made available a number of funding opportunities to all local government authorities, and each application is assessed on its merits, no special consideration is received as a result of restrictive State Agreement Acts.¹¹⁸

Furthermore, the specific purpose grant funding from State Government typically comprise a relatively minor portion of the cost of the project or service to be provided and are almost always capital funding with the local government left to fund the ongoing operational costs.

¹¹⁴ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p28.

¹¹⁵ Ibid, pp28-29.

¹¹⁶ <http://grantsdirectory.dlgrd.wa.gov.au/> (current at July 27 2004).

¹¹⁷ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p31.

¹¹⁸ Submission No 19 from the Shire of Roebourne, January 28 2004, p4.

- 3.45 The Shire of Roebourne also submitted that accessing these funds is becoming increasingly difficult.¹¹⁹

Accessing these funds is also becoming more difficult, with increasingly detailed information requirements on applications being required. Some local governments have employed Grants Officers to improve their ability to attract these grants; the smaller local governments, which typically have the most need for these grants, are therefore doubly disadvantaged.

- 3.46 Mr Ford, Chief Executive Officer, Town of Port Hedland, in relation to the State's contribution to the provision of services in the Pilbara to date, stated:¹²⁰

Local government in the Pilbara has access to a range of state funding, as does every local government within the State. There are things like the community sporting and recreation facilities fund, Lotterywest funding, health department funding and the like. We are no different in that respect from other local governments throughout the State. However, very often that funding requires matching funding and it can be challenging for councils to find that matching funding. In some cases, for example, with the CSRFF funding, it is two-thirds to one-third funding, and that can prove challenging. A concrete example is the South Hedland Aquatic Centre, which the Town of Port Hedland owns and operates. It is approximately 25 years old and requires substantial upgrading to bring it into compliance with standards. At least \$1 million of expenditure is required to achieve that. From memory, we applied for \$300 000 of state government funding through the CSRFF. We were successful in attracting \$83 000. There is a significant gap between the costs of upgrading and what the State Government is able to contribute.

Amount of State Government funding support to regional WA

- 3.47 The Joint Departmental Submission advises that the State Government generally spends more in regional areas than in metropolitan areas, on a per capita basis (for example, \$803 per capita in Perth versus \$1093 per capita in regions for capital spending in 2003-04).¹²¹ This partly reflects the impact of long distances, small

¹¹⁹ Ibid, p4.

¹²⁰ Mr Anthony Ford, Chief Executive Officer, Town of Port Hedland, *Transcript of Evidence*, May 3 2004, p4.

¹²¹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p.ii.

community size and remoteness on the cost of services (although accurate data are not available to quantify the differences).¹²²

- 3.48 The Department of Treasury and Finance provided to the Committee ‘best estimates’ of State expenditures by region within WA in relation to the 2003-04 budget operating expenditures (see Table 3.2 below). However, the Department of Treasury and Finance advised the Committee that there were serious data limitations on the information provided and on what is available in the area. For example, only half of the State’s capital works program was able to be allocated with any degree of reliability between the regions.¹²³ Further, some capital works benefit more than one region (for example, Western Power transmission lines).¹²⁴ As stated in evidence to the Committee by Mr Mark Altus, Director, Intergovernmental Relations, Department of Treasury and Finance:¹²⁵

In very general terms, it was determined on the basis of information that was sought by the Department of Treasury and Finance from state government agencies. In addition to the information that was subsequently submitted by state government agencies by region, some analysis was done with the Department of Treasury and Finance by the relevant analyst applying a little bit of judgement in order to allocate total cost among the regions. As I mentioned a while ago, it was felt that only half of the State’s overall capital works program could be split by region. There simply was not enough information available for agencies, and you can understand some of the difficulties when it comes to allocating central or overhead-type capital costs between regions. It requires a number of assumptions to be made. We have only gone so far in coming up with these numbers. It was felt there would not be a sufficient degree of robustness or reliability to provide anything more detailed than this.

¹²² Ibid, p6.

¹²³ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, pp2-3.

¹²⁴ Letter from Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, June 22 2004, p2.

¹²⁵ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p3.

Table 3.2**Capital expenditure by Region 2003-04¹²⁶**

	Capital Works \$000	% dist	Capital Expenditure \$ per capita
Metropolitan	1,125,143	66.2	803
Gascoyne	19,788	1.2	1 920
Wheatbelt	39,620	2.3	548
Peel	22,725	1.3	288
South West	103,859	6.1	787
Great Southern	43,954	2.6	817
Goldfields-Esperance	54,712	3.2	997
Mid West	105,126	6.2	2 089
Pilbara	143,274	8.4	3 633
Kimberley	41,510	2.4	1 232
	1,699,711	100.0	882

3.49 The analysis of estimated capital expenditure by region was completed for the first time in 2002-03. Only about 40 percent of budgeted capital expenditure was attributed to regions.¹²⁷

Table 3.3**Capital expenditure by Region 2002-03¹²⁸**

	Capital Works \$000	% dist	Capital Expenditure \$ per capita
Metropolitan	796, 663	61.9	568

¹²⁶ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p6.

¹²⁷ Letter from Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, June 22 2004, p2.

¹²⁸ Ibid, p2.

	Capital Works \$000	% dist	Capital Expenditure \$ per capita
Gascoyne	12,794	1.0	1 241
Wheatbelt	38,026	3.0	526
Peel	104,525	8.1	1 326
South West	90,662	7.0	687
Great Southern	20,125	1.6	374
Goldfields-Esperance	66,344	5.2	1 209
Mid West	65,250	5.1	1 297
Pilbara	64,158	5.0	1 627
Kimberley	29,125	2.3	864
	1,287,672	100.0	668

3.50 In 2001-02, the State provided \$124 million in grants to local government authorities (excluding Commonwealth Financial Assistance Grants).¹²⁹

Amount of grant and program funding

3.51 The Treasurer, the Minister for Local Government and Regional Development and the Departments of Treasury and Finance, and Local Government and Regional Development were unable to advise the Committee of the amount of State Government grant funding and program funding provided to local government authorities by region. The Department of Treasury and Finance advised that they do not compile this data.¹³⁰ The Office of the Minister for Local Government and Regional Development advised that:¹³¹

this office is not in a position to provide information that the Committee is seeking on funding or activities to support local

¹²⁹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p18.

¹³⁰ Letter from Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, June 22 2004.

¹³¹ Letter from Ms Anne Wood, Acting Chief of Staff for the Minister for Local Government and Regional Development, undated, p1.

government by agencies outside the Minister for Local Government and Regional Developments portfolio.

- 3.52 The Committee was able to obtain the general contribution amount to local government authorities through local government support and development programs provided by the Department of Local Government and Regional Development. This information is provided in Table 3.4 below.¹³²

Table 3.4

Department of Local Government and Regional Development contribution to local government

2002-03 (actual)	2003-04(estimate)	2004-05(estimate)
\$3,415,000	\$3,115,000	\$3,268,000

Funding to the Pilbara

- 3.53 The Committee notes that a Pilbara Fund of \$20 million, to be spent over four years, has been established to improve facilities in the key areas of health, education, recreation and culture, and Government housing.¹³³
- 3.54 The Pilbara Fund will be administered by a steering group, which includes representatives from the PRC, the Chamber of Minerals and Energy and the State Government. The steering group (working closely with mining companies and local government authorities) will work to identify and fund priority projects.¹³⁴ The steering group's recommendations will be submitted to the State Cabinet's Regional Development Committee for approval.¹³⁵
- 3.55 Regarding the Pilbara Fund, the Minister for Local Government and Regional Development stated that:¹³⁶

The Pilbara community stands to benefit greatly from this fund, which is available to accelerate government investment in locally identified priorities.

¹³² Ibid, p1.

¹³³ Hon Geoff Gallop MLA, Premier, Media Statement, *Premier unveils \$20 million Pilbara Fund*, July 26 2004.

¹³⁴ Ibid.

¹³⁵ Hon Ljiljanna Ravlich MLC, *Pilbara Fund applications open*, Media Statement, September 29 2004.

¹³⁶ Hon Tom Stephens MLC, Minister for Local Government and Regional Development, August 18 2004, p5110.

Committee Comment

- 3.56 The Committee notes the analysis of capital expenditure by region that was completed by the Department of Treasury and Finance in 2002-3 and 2003-4. The Committee notes and accepts the limitations mentioned in paragraph 3.48. The Committee encourages the continuation and further refinement of this annual analysis.
- 3.57 The Committee notes the funding support provided by the State to the regions. However, the Committee also notes the concern of some local government authorities that the funding support provided is not generally directed to the ongoing maintenance of the existing infrastructure, but is instead allocated to a range of services, capital works and programs. The Committee also notes the concern of some local government authorities that often, where funding is allocated for the upgrade of facilities, it does not cover the cost of the whole project but only a portion of it.
- 3.58 The Committee notes that the State does not provide any direct compensatory payment to the local government authorities that are affected by the rating restrictions due to the operation of a State Agreement Act. The Committee also notes the comments of Hon Eric Ripper MLA (Treasurer) regarding State Government compensation described at paragraph 4.13.
- 3.59 The Committee is unable to comment definitively on the level of distribution of State funding support to the State's regions as it was unable to obtain the necessary information.

INDUSTRY CONTRIBUTION

- 3.60 The Chamber of Commerce and Industry WA advised the Committee that companies operating under State Agreement Acts provide contributions to the local communities in which they operate. These contributions are in the form of, for example, grants to social infrastructure such as sporting facilities.¹³⁷
- 3.61 The Joint Departmental Submission states:¹³⁸

While some communities benefit significantly from the presence of these companies through local employment and training, local trading opportunities and additional funding of the community, other Local Government Authorities that do not have major resources projects within their boundaries are solely reliant on ratings and grants for revenue.

¹³⁷ Submission No 20 from the Chamber of Commerce and Industry WA, January 28 2004.

¹³⁸ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, Attachment 1.

3.62 The Chamber of Minerals and Energy of Western Australia advised the Committee that during 2002-03 the resources industry provided around \$30 million in voluntary contributions and local programs across WA. This included: contributions to town enhancement programs; sponsorship, donations and related community programs; assistance in kind to community/township activities; education programs and scholarships; tourism support; voluntary environmental, indigenous and heritage programs.¹³⁹

*The resources sector is an essential partner in regional development and its growth signals economic wealth, employment opportunities and the development of the regional Western Australian economy.*¹⁴⁰

3.63 Rio Tinto in its submission stated that:¹⁴¹

... Hamersley estimates its financial and in-kind contribution to local communities (including Aboriginal communities as well as regional town communities) for 2003 was nearly \$A11 million. ...

In addition to direct payments to State and Local Government, in 2003 Rio Tinto companies operating in Western Australia made a total contribution to local communities of nearly \$A17 million. This represents both direct payments to communities (for example through land use agreements with indigenous groups), cash contributions to communities and provision of in-kind services and equipment. Examples of these contributions include supplementing local Government expenditure in regional towns by contribution to community infrastructure, parks, schools, hospitals, community and sporting groups and facilities.

3.64 Rio Tinto advised the Committee that companies in the Pilbara are making ongoing payments as part of normalisation agreements with the Shires, reflecting the costs associated with the transfer of infrastructure and services, for example, from Hamersley to the Shires. (Hamersley Iron funded the construction of towns including Paraburdoo, Tom Price, Dampier and contributed to the creation of Karratha.¹⁴² BHP has advised the Committee that over a number of decades their investment created Port Hedland and Newman as we know them).¹⁴³

¹³⁹ Submission No 34 from the Chamber of Minerals and Energy of Western Australia Inc, February 27 2004; and Letter from Mr Tim Shanahan, Chief Executive, the Chamber of Minerals and Energy of Western Australia Inc, April 9 2004.

¹⁴⁰ Submission No 34 from the Chamber of Minerals and Energy of Western Australia Inc, February 27 2004.

¹⁴¹ Submission No 16 from Rio Tinto Iron Ore, January 27 2004, p2.

¹⁴² Ibid, p2.

¹⁴³ Submission No 31 from BHP Billiton Iron Ore, February 23 2004, pp3-4.

- 3.65 BHP Billiton Iron Ore advised the Committee that voluntary financial and in kind contributions from their company to the Pilbara community in 2003 was \$1.6 million.¹⁴⁴

These voluntary contributions are made to assist the communities to improve their amenities and lifestyle and to compensate for the isolation and climatic disadvantages of the Pilbara, compared with Perth.

- 3.66 Woodside Australian Energy advised the Committee that it returns 0.5 percent of its anticipated annual profit into community projects in WA, Australia and its other international areas of operations. The North West Shelf Venture, which Woodside Energy Ltd operates, contributed more than \$875,000 in 2003 into the Karratha and Roebourne communities through its Aboriginal education, employment and training programs and other community based sponsorships and donations.¹⁴⁵

Local government view of industry contribution

- 3.67 The PRC submitted the following view:¹⁴⁶

the major resource companies do provide assistance to the communities in which they operate however, the extent of the assistance is not great in relation to the value of rates foregone.

Committee Comment

- 3.68 The Committee notes the contributions provided by the companies operating under State Agreement Acts to the local communities in which they operate. However, there appears to be insufficient predicability or certainty in the timing or the amount of the contributions made. The contributions are generally provided for capital works and increased infrastructure. The Committee considers that it is important that the financial commitments of all affected parties involved in State Agreement Acts be as predictable as possible.

¹⁴⁴ Ibid, pp4-5.

¹⁴⁵ Submission No 17 from Woodside Australian Energy, January 28 2004.

¹⁴⁶ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p13, (paper tabled at hearing held on May 3 2004).

CHAPTER 4

A SECURE FINANCIAL BASE FOR LOCAL GOVERNMENT

INTRODUCTION

4.1 Adequately funded, effectively administered local government is essential to meet the needs of local and regional communities. However, the Committee has received evidence from a number of local government authorities in regional areas that, at present, the financial base of some local government authorities in regional areas is insufficient to adequately provide for the needs of its communities.

4.2 Local government authorities in regional areas have submitted to the Committee that they are facing increasing financial pressures. Local government authorities raised concern that they are taking on extra responsibilities without any extra funding to cover this. As stated by the Pilbara Development Commission in their submission:¹⁴⁷

Whilst the cost shift onto local government in the Pilbara is sometimes acknowledged it is assumed that this is offset through increased revenue from rates due to provision of housing combined with normalisation payments and ex gratia payments and voluntary contributions made by resource companies. Furthermore, both State government and resource companies have from time to time made contributions to specific community enhancement projects. However, local government authorities in the Pilbara still argue that as a result of their circumstances they suffer a financial imposition.

4.3 The Shire of Yilgarn stated that:¹⁴⁸

The Council highlights to the Standing Committee the negative impact that cost shifting has on local governments and that Government Department's [sic] should be increasing funding levels to assist local government in administering the roles that have been passed onto local government eg., local governments contributing to employment of Doggers to combat the wild dog problem in the Eastern Wheatbelt areas of the State and the significant contribution that rural local governments make to the retention of Doctors in their areas.

4.4 Local government authorities are experiencing a fiscal shortfall. The Joint Departmental Submission states that there is a shortfall in the fiscal capacity of

¹⁴⁷ Submission No 29 from the Pilbara Development Commission, February 19 2004, p4.

¹⁴⁸ Submission No 5 from the Shire of Yilgarn, December 23 2003.

regional local government authorities compared with those in the metropolitan region, as illustrated in Table 4.1 below.¹⁴⁹

Table 4.1

Shortfall in Fiscal Capacity of Regional Local Governments relative to those in the Metropolitan Region 2003-04

Region	\$ per capita
Gascoyne	215.0
Goldfields-Esperance	86.3
Great Southern	117.3
Kimberley	120.1
Mid West	161.8
Metropolitan	0
Peel	59.0
Pilbara	93.9
South West	76.8
Wheatbelt	203.9

- 4.5 The PRC submitted that financial pressures are especially being felt by local government authorities affected by the rating concessions and exemptions applied under State Agreement Acts. For example, as stated by the PRC:¹⁵⁰

Local governments provide and maintain the community infrastructure needed to support the people producing this wealth, but are increasingly struggling to do so due to their legislated inability to derive revenue from the main economic base of the Pilbara, the resources sector. If this is not addressed by State Government, the Pilbara local governments will be forced to progressively reduce services and close facilities to avoid becoming financially unviable.

¹⁴⁹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p28.

¹⁵⁰ Pilbara Regional Council, *Sustainable Pilbara Communities*, May 2004, p8, (paper tabled at hearing held on May 3 2004).

This would not be a sustainable outcome either for Pilbara communities or for the major employers in the region.

- 4.6 It is noted in the report published by the PRC entitled *Best of Both Worlds? Seeking a Sustainable Regional Employment Solution to Fly In-Fly Out Operations in the Pilbara*, that regional communities are perceived as having standards of public health, education and policing services, as well as banking and other commercial services, that are below those of the metropolitan area.¹⁵¹
- 4.7 Mr Stedman Ellis, Vice President, External Affairs, BHP Billiton Iron Ore, advised that this perception is making it difficult to attract people to regional areas and for mining companies to retain staff. However, he advised that this is not just related to local government authorities but also to State service provision in regional areas.¹⁵²

From our experience, many of the issues that make it hard for us to attract and retain staff in the communities in which we operate are more related to the provision of state government services and infrastructure than local government services.

- 4.8 The problems facing local government authorities were examined by the Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration, in their report *Rates and Taxes: A Fair Share for Responsible Local Government*. The report included a number of recommendations in relation to the problems with the current arrangements. The Committee notes that four of these recommendations contain elements that touch on matters that are directly relevant to this inquiry. These are:¹⁵³

Recommendation 1

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers/Chief Ministers and Treasurers and local government to develop a Federal-State inter-governmental agreement which identifies:

...

- *the allocation of funds and resources from the Federal and the State governments to local government in order to fulfil its responsibilities; and*

¹⁵¹ Ms Janine Watts, *Best of Both Worlds? Seeking a Sustainable Regional Employment Solution to Fly In - Fly Out Operations in the Pilbara*, Pilbara Regional Council, undated.

¹⁵² Mr Stedman Ellis, Vice President, External Affairs, BHP Billiton Iron Ore, *Transcript of Evidence*, April 19 2004, p2.

¹⁵³ Commonwealth House of Representatives Standing Committee on Economics, Finance and Public Administration, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003.

- *the expected performance and funding responsibilities on the part of all levels of government.*

Recommendation 4

The Committee recommends that, when developing Federal-State intergovernmental agreements, the Federal government consider:

- *including representation from local government during negotiations; and*
- *requiring a commitment from State governments to identify and provide a share of payments to local government when it is seen as having a significant role in delivery of programs under the agreement.*

Recommendation 6

The Committee recommends that the Prime Minister and the Treasurer meet with State and Territory Premiers and Treasurers and local government representatives to develop a Federal-State intergovernmental agreement which:

- *recognises cost shifting as a problem which has occurred over a number of years;*
- *allocates revenue to local government from the relevant level of government if responsibilities are devolved;*
- *addresses State restrictions on local government revenue raising such as rate capping, levies and charges and non-rateable land; and*
- *develops local government impact statements to identify the financial impact on local government of legislation by State and Commonwealth governments.*

Recommendation 17

The Committee recommends that COAG host a Summit in 2005 on Intergovernmental Relations:

...

To review: ...

- *the revenue raising capacity of councils with consideration of financial penalties for States and Territories which fail to adequately support or deliberately suppress that capacity; and*
- *successful State/local government partnerships and the opportunities for Federal government participation in those partnerships;*

...

OPTIONS FOR PROVIDING A MORE SECURE FINANCIAL BASE FOR LOCAL GOVERNMENT

4.9 A number of additional forms of assistance to local government authorities affected by State Agreement Acts have been suggested to the Committee. These are discussed below.

Compensation

- 4.10 Various local government authorities have submitted that the State Government should make a compensation payment to a local government authority for the loss of rating capacity due to the operation of a State Agreement Act.¹⁵⁴ The Shire of Murray suggested that this money could come from the royalties that the State Government receives from mining companies under State Agreement Acts.¹⁵⁵
- 4.11 Other suggestions, for example from the Shire of Boddington, include that the State Government give a subsidy from the royalties it collects from State Agreement Acts to the affected local government authorities.¹⁵⁶ Or alternatively, as submitted by the Goldfields Esperance Development Commission, that the mining companies hand over a percentage of royalties that would otherwise have gone directly to the State Treasury, to the shire council in which that mining company was operating.¹⁵⁷
- 4.12 The Committee notes that the Legislative Assembly Public Accounts and Expenditure Review Committee, in its Report No 31 (1996) *Western Australian Government Financial Assistance to Industry*, made recommendations relating to the State Agreement Act mechanism and its impact on local government authorities in WA. This included the recommendation that:

¹⁵⁴ See for example, Submission No 28 from the Shire of Murray, February 2 2004, p2; Submission No 26 from the WA Local Government Association, January 2004, p6; Submission No 24 from the Shire of East Pilbara, undated, p7; and Submission No 25 from the City of Bunbury, January 9 2004, p2.

¹⁵⁵ See for example, Submission No 28 from the Shire of Murray, February 2 2004, p2. See also paragraphs 4.40 to 4.50 of this report for a discussion on the royalties that the State Government receives.

¹⁵⁶ Submission No 13 from the Shire of Boddington, January 23 2004.

¹⁵⁷ Submission No 9 from the Goldfields Esperance Development Commission, January 15 2004. See also Mr Anthony Ford, Chief Executive Officer, Town of Port Hedland, *Return of Pilbara Royalties*, undated.

*If, as a result of the terms of any State Agreement, a local authority suffers a revenue loss, or is required to forego income, the State should give consideration to compensating that local authority.*¹⁵⁸

- 4.13 The Treasurer has advised the Committee that the State Government's position on this issue is that it would consider claims for compensation, where a local government authority can **demonstrate** a net revenue loss as the result of the establishment of a State Agreement Act project in the local government authority's area. In relation to this, the Treasurer advised the Committee of the following:¹⁵⁹

I expect that it would not be sufficient for a local authority to demonstrate that it had foregone revenue as a result of a rating limitation in a State Agreement Act. The overall impact of a State Agreement Act project on the local authority's revenues and costs would need to be considered.

- 4.14 However, as previously stated (at paragraphs 2.42 and 2.43), it is difficult for local government authorities **to prove** revenue loss resulting from rating restrictions imposed by State Agreement Acts. This difficulty relates to the unavailability of, and the inherent cost of obtaining, GRVs for the relevant developments.¹⁶⁰ Further, no studies have come to the Committee's attention or have been located by the Committee on the overall impact of a State Agreement Act project on a local government authority's revenue and costs. The Committee notes that the Department of Industry and Resources has announced that it is currently undertaking such a study. (See paragraphs 2.45 to 2.46.)

- 4.15 The Committee notes that a compensation payment may have an impact on the grants that a local government authority receives from the Commonwealth (refer to paragraphs 3.23 to 3.30). The WALGGC has advised the Committee that the impact on the local government authority grant allocation of a compensation payment from the State would depend on the circumstances:¹⁶¹

4.15.1 If the payment was in the form of untied general purpose funding, then the WALGGC would consider inclusion of the payment as an increase in revenue capacity and this would lead to a reduction in equalisation grants.

4.15.2 If the payment was in the form of a capital grant, for the construction of facilities, the WALGGC would not assess this, as capital grants and

¹⁵⁸ Western Australia, Legislative Assembly, The Public Accounts and Expenditure Review Committee, *WA Government Financial Assistance to Industry*, Report 31, October 17 1996, p53.

¹⁵⁹ Letter from Hon Eric Ripper MLA, Deputy Premier, Treasurer, July 29 2004.

¹⁶⁰ Letter from Ms Anne Wood, Acting Chief of Staff for the Minister for Local Government and Regional Development, undated, p4.

¹⁶¹ Letter from Mr John Lynch, Chairman, WA Local Government Grants Commission, April 1 2004.

expenditure are currently outside the scope of the WALGGC equalisation assessment. As payments in this form are not assessed, they thus do not impact upon the grant from the WALGGC to the local government authority. Local government revenue and expenditure areas which are outside of the scope of the WALGGC assessment are set out in Appendix 7. These are currently not assessed, although it is possible that these functions may be included in the WALGGC assessment model at some time in the future.

- 4.16 The Committee also notes that it is argued by the PRC that local government authorities do not wish to rely on state funding support to the State's regions. Rather, they would prefer to be a minimum grant council. For example, as stated by Mr Ford, Chief Executive Officer, Town of Port Hedland:¹⁶²

I would very much like the Town of Port Hedland to be a minimum grant council; to be on the same financial footing as most of the Perth metropolitan councils, which do not need a local government grant because they raise sufficient revenue to more than adequately cater for the needs of their constituents. I would be very happy if all that the Town of Port Hedland received was a minimum grant of around \$15 or \$16 per head of population, because that would mean that we are raising sufficient revenue from our ratepayers, including industry, to be able to properly service the needs of our community.

- 4.17 WALGA submitted that local government authorities would prefer to rate various sites. As they cannot do this, the WALGA has promoted the issue of returning to the regions, perhaps from royalties received, a rate equivalent to the lost income that has occurred as a result of rating provisions of the State Agreement Acts. Mr Clive Robartson, President, WALGA stated:¹⁶³

The second term of reference is the distribution of state funding support to the State's regions. Local government would prefer to rate various sites. However, the current structure of state agreement Acts, of course, does not allow that to occur.

WALGA has promoted the issue of returning, perhaps from royalties received, to the regions a rate equivalent to the lost income that has occurred as a result of the rating provisions of the state agreement Acts.

¹⁶² Mr Anthony Ford, Chief Executive Officer, Town of Port Hedland, *Transcript of Evidence*, May 3 2005, p13 and also see p18.

¹⁶³ Mr Clive Robartson, President, WA Local Government Association, *Transcript of Evidence*, May 10 2003, p2.

Committee Comment

4.18 The Committee is of the view that the proposition that the State provide compensatory funding to a local government authority for the loss of rating capacity due to the operation of a State Agreement Act is not as simple or clear-cut as it seems to be in the first instance. Issues relating to Commonwealth and State financial relations impact upon the State's ability to provide compensation, specifically through:

- a) the WALGGC process - the Committee notes that any additional revenue received by a local government authority may result in a decrease in the grant (see paragraph 4.15); and
- b) the Commonwealth Grants Commission process - the Committee notes that the operations of the Commonwealth Grants Commission disadvantages WA by reducing grants to WA in response to any royalties received from resource companies (see paragraphs 4.42 to 4.46).

4.19 The Committee is of the view that, unless these issues are addressed, it is unlikely that compensation will be a viable option.

Changes to State Agreement Acts

4.20 The Shire of Boddington submitted that State Agreement Acts should provide for infrastructure to be rated at the GRV.¹⁶⁴

4.21 The Committee notes that it has been submitted that State Agreement Acts should provide for the following:

- regular reviews of the need for rate benefits to large companies.¹⁶⁵ As stated by the Shire of Murray:

While there may be some argument to support companies receiving a variety of benefits from Government in the early stages of development, it is difficult to justify these benefits continuing when a company has become well established, profitable and part of an international economy.

- a sunset clause on the rating restriction provisions.¹⁶⁶ As stated by the East Pilbara Shire:¹⁶⁷

¹⁶⁴ Submission No 13 from the Shire of Boddington, January 23 2004.

¹⁶⁵ Submission No 28 from the Shire of Murray, February 2 2004, p2.

¹⁶⁶ Submission No 26 from the WA Local Government Association, January 2004, p4; and Submission No 24 from the Shire of East Pilbara, undated, p7.

¹⁶⁷ Submission No 24 from the Shire of East Pilbara, undated, p7.

thus after capital costs have been recovered then normal payments to the shires could occur.

Committee Comment

- 4.22 Estimating how much impact rating at GRV would actually make to the financial position of a local government authority affected by a State Agreement Act, is complicated by a number of factors including:
- a) the lack of precision in predicting the effect of GRV rating on the WALGGC grant that would be received; and
 - b) valuations have not been undertaken to determine the GRV of land under State Agreement Acts that are currently rated at the UV rate.
- 4.23 As State Agreement Acts do not allow for unilateral amendment, any amendment to rating clauses would have to be by negotiation between the parties.

Amendment of the *Local Government Act 1995*

- 4.24 The Shire of East Pilbara submitted that the provisions contained in the *Local Government Act 1995*, s6.30, should allow for indexing (possibly linked to the Consumer Price Index). This would at least see the value of the property increase over time, in line with the annual review of UV's.¹⁶⁸

Industry contribution

- 4.25 The Shire of East Pilbara submitted that the companies involved be required to contribute to maintaining local and aging infrastructure.¹⁶⁹

Committee Comment

- 4.26 The Committee notes that industry contribution may come in many forms, including through rate revenue or other types. This contribution may be formalised, in order to provide surety of funding for local government authorities.
- 4.27 The Committee is of the view that companies require certainty and predictability in relation to their costs. The Committee also notes that local government authorities require certainty in relation to what they expect to receive.
- 4.28 The Committee considers that it is important that the financial commitments of all affected parties involved in State Agreement Acts be as predictable as possible.

¹⁶⁸ Submission No 24 from the Shire of East Pilbara, undated, p7.

¹⁶⁹ Ibid.

- 4.29 The Committee is of the view that where industry makes a financial contribution to communities, consideration of the replacement of high maintenance cost infrastructure by the contributing companies would be helpful.

Change to Local Government Grants Commission processes

- 4.30 The Shire of East Pilbara submitted that the WALGGC should not consider any additional revenue received by a local government authority, as grants would decrease.¹⁷⁰ Mr Ray Hadlow, Director, Mansell Pty Ltd advised that, at present, if a local government authority is seeking to increase their revenue significantly, they need to ensure that their increased revenue exceeds their grant, because otherwise they can lose money¹⁷¹ (see paragraph 3.26).
- 4.31 Mr Kevin Richards, Chairperson, PRC, stated that the WALGGC does not take into account the fly-in/fly-out population and further that he would like to see such workers included as part of the population in the WALGGC assessment:¹⁷²

I would like to see the fly in, fly out people counted as members of the community instead of being counted as part of some other community.

...

Fourteen percent of the Pilbara's population is fly in, fly out. That is the figure. Those people are not counted as being in the Pilbara. If they lived in Mandurah, which is on the minimum grant, they would be worth \$7.70. If they were counted as being in our neck of the woods, they would be worth \$157 each. It is a bit like a bounty!

Committee Comment

- 4.32 The Committee notes that some fly-in/fly-out workers place added pressure on some local government authorities. Some fly-in/fly-out workers use facilities of local government authorities which are unable to collect any rate income from these workers because the worker's principal residence is within the jurisdiction of another local government authority. Such fly-in/fly-out workers do not directly contribute to the community rate base or make a direct financial contribution to the local government authority.

¹⁷⁰ Ibid.

¹⁷¹ Mr Ray Hadlow, Director, Mansell Pty Ltd, *Transcript of Evidence*, April 5 2004, p10.

¹⁷² Mr Kevin Richards, Chairperson, Pilbara Regional Council, *Transcript of Evidence*, May 3 2004, pp18-20.

- 4.33 The Committee is of the view that the WALGGC should consider making allowance through its grant allocation process, in respect of the fly-in/fly-out workers who use facilities provided by local government authorities.

Recommendation 4: The Committee recommends that the Western Australian Local Government Grants Commission, in its grant determination process, make allowance in respect of the fly-in/fly-out workers who use facilities provided by a local government authority where the primary place of residence of those workers is not within that local government authority's rating jurisdiction.

Community Foundation

- 4.34 The PRC put forward a proposal that a 'Community Foundation' be established, to which resource companies and the State Government could contribute on an equitable basis.¹⁷³
- 4.35 Mr Anthony Ford, Chief Executive Officer, Town of Port Hedland, explained the concept of the 'Community Foundation' as follows:¹⁷⁴

A community foundation is an independent, charitable organisation formed to collect and distribute gifts or funds, or otherwise to create an endowment, by fundraising for a variety of sources with a common interest in the welfare of a particular geographic area such as a town, region or state. They usually have a representative board of local people who act in a voluntary capacity. The Foundation functions much like a permanent community savings account where distribution of the funds generated is determined by the community, through the board of the Foundation. These organisations have the capacity to accumulate, over time, sufficient capital to ensure the interest revenue generated meets local community needs without a continuing need for contributions from donors.

- 4.36 In relation to the funding of the 'Community Foundation', Mr Ford advised the Committee that:¹⁷⁵

The Commonwealth Government offers grant funding to establish foundations in regional Australia and clearly sees these organisations as an important vehicle in addressing regional issues.

¹⁷³ Mr Anthony Ford, CEO, Town of Port Hedland and Pilbara Regional Council, *The Pilbara Sustainability Experience*, undated.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

Committee Comment

4.37 The Committee notes that a significant difficulty experienced by local government authorities affected by State Agreement Acts, as expressed in evidence to the Committee, was the cost burden of infrastructure maintenance. The Committee is of the view that there is no guarantee that the money provided to a community foundation would necessarily assist a local government authority in meeting the cost of maintenance and other ongoing costs required for existing facilities.

Other

4.38 Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, stated in evidence to the Committee, that there appears to be a large variation of financial circumstances of individual local government authorities, and the extent to which individual local governments are under financial pressure. This implies that the solutions that need to be looked at might differ between individual local government authorities.¹⁷⁶

Managing Expenditure

4.39 The Joint Departmental Submission states that financial outcomes may be improved by cost management:¹⁷⁷

Cost management remains an option for local governments to improve financial outcomes. Increased emphasis needs to be given to the effectiveness and efficiency of service delivery. Implications of cost reduction must be carefully considered to ensure that the quality of local government operations is not eroded.

COMMONWEALTH GRANTS TO THE STATE

4.40 Commonwealth grants are the main source of the WA Government's revenue, contributing approximately \$4.8 billion (around 46 percent of total State revenue) in 2000-01.¹⁷⁸

4.41 Royalties are another major source of WA Government revenue. The State Government collects approximately \$1 billion in royalty payments¹⁷⁹ annually (as opposed to taxation of company income) from mineral and petroleum producers in

¹⁷⁶ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p2.

¹⁷⁷ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p31.

¹⁷⁸ Department of Treasury and Finance, *Structure of the Western Australian Economy*, February 2002, p22.

¹⁷⁹ A royalty is defined as a payment made to government by industry to compensate the community for the extraction by industry of a State-owned non-renewable resource.

WA. In 2002-03 the State Government received \$1,138,979,188 into the State Consolidated Revenue Fund from royalties.¹⁸⁰

- 4.42 The Department of Treasury and Finance has advised the Committee that a reduction in funding from the Commonwealth to the State due to the royalties that the State Government collects presents a significant barrier to the State being in a position to provide funding support to the State's regions:¹⁸¹

Therefore, that is a fairly significant barrier to the State being in a position to reinvest, if you like, mining royalties back into the regions from which those royalties were sourced.

- 4.43 The Joint Departmental Submission states that not all WA royalties accrue to the State but that 90 percent of the funds from royalties are effectively passed on to the other states.¹⁸²
- 4.44 The Committee notes that the Commonwealth Government does not redistribute the actual royalties that are received by the State Government. The royalties received by the State Government go directly into the Consolidated Revenue Fund and are used for such things as law enforcement, education, health, roads and community development programs. However, the grants which are funded by Goods and Services Tax (GST) revenue, which is collected by the Commonwealth Government, is redistributed between the states, with the amount that WA receives in grants from the Commonwealth Government being substantially offset by the amount of royalties that it receives.¹⁸³
- 4.45 The Commonwealth Grants Commission, which is responsible for inquiring into and reporting on how grants are distributed between the states,¹⁸⁴ considers that if a state has a relatively strong growing revenue capacity, as is the case with mining royalties for WA, then it needs a smaller share of the total grant amount in order to deliver the average levels of services to the state.¹⁸⁵ Thus, the mining royalties act to reduce WA's share of the grant.

¹⁸⁰ <http://www.doir.wa.gov.au/documents/StatisticsDigest/royaltyreceipts0203.xls>

¹⁸¹ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p2.

¹⁸² Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p10.

¹⁸³ Department of Treasury and Finance, *Structure of the Western Australian Economy*, February 2002, pp22-26.

¹⁸⁴ See *Commonwealth Grants Commission Act 1973* (Cth).

¹⁸⁵ Department of Treasury and Finance, *Western Australian Economic Summary*, September Quarter 2002, pp36-37.

4.46 As a general rule, around 80 percent of WA's onshore mining royalties (including onshore petroleum royalties), and around 90 percent of WA's share of offshore petroleum royalties (mainly from the North West Shelf) are 'redistributed' to other states through a reduction in WA's share of grant funding.¹⁸⁶

4.47 As stated by Mr Mark Altus in evidence to the Committee:¹⁸⁷

... the State Government is heavily dependent on another level of government for grant funding - the Commonwealth Government. As a result, the State Government is exposed to cuts in grant funding, to less than adequate growth in that grant funding, to cost shifting and to more and more conditions being imposed on that grant funding - many of the same types of issues with which local government is concerned. As a result of those exposures, the State Government, particularly over the past two decades, has been forced to rely more heavily on socially and economically undesirable state taxes such as stamp duties, and to some extent it has also had to cut its cloth in terms of service delivery, which may have had some flow-on impact to local government.

4.48 The Joint Departmental Submission also states that cost-shifting¹⁸⁸ by the Commonwealth to the states (\$2 billion per annum for WA) through reductions in Commonwealth grant funding (measured as a proportion of Commonwealth tax revenues), over the last 20 years and the resultant financial stresses on states (and necessary adjustments to revenue and spending priorities) may have had some consequential impacts on local government authorities.¹⁸⁹

4.49 On what these consequential impacts of cost-shifting are, Ms Anne Wood, Acting Chief of Staff for the Minister for Local Government and Regional Development, advised:¹⁹⁰

¹⁸⁶ Department of Treasury and Finance, *Western Australian Economic Summary*, September Quarter 2002, p44.

¹⁸⁷ Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p2.

¹⁸⁸ Cost-shifting refers to the states (and less so the Commonwealth), increasing local government's responsibilities without either providing necessary funds or enabling local government authorities to generate additional revenue of their own.

¹⁸⁹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, p19; and Graham Sansom, 'A fair slice of the cake', *About the House*, March 2004, p28. For further information on cost-shifting refer to the Parliament of the Commonwealth of Australia, House of Representatives Economics, Finance and Public Administration Committee, *Rates and Taxes: A Fair Share for Responsible Local Government*, October 2003.

¹⁹⁰ Letter from Ms Anne Wood, Acting Chief of Staff for the Minister for Local Government and Regional Development, undated, p4.

The State Government has endless numbers of resource proposals from communities across the state as a result of the increased economic activity Western Australia is experiencing. However, because of the restricted funds available and the cost shifting from the Commonwealth to the State, the State is not in a position to agree to every request from every Local Government and community in the State, no matter how worthwhile. There is no shortage of good ideas, good projects and good proposals.

It is likely that the State Government has made decisions about allocating its finite resources that have impacted on local government, although this office can provide no particular examples within Minister Stephen's portfolio.

- 4.50 The Joint Departmental Submission states that because the Commonwealth Grants Commission funds states for a lower level of service in regional and remote areas compared with those provided in the metropolitan area, in order for it to improve services in the regions, the State Government must either raise taxes or royalty rates to above average levels or reduce the level of services to other parts of the State.¹⁹¹

Committee Comment

- 4.51 The Committee notes that a state government's capacity to provide further financial support to the regions would be enhanced if the operations of the Commonwealth Grants Commission were changed so that WA was no longer disadvantaged through their grants by the revenue it receives from royalties.

AN ISSUE RELATING TO COMMONWEALTH-STATE FINANCIAL RELATIONS

- 4.52 The Committee notes, that the capital expenditure of the State on industry support is not taken into consideration by the federal grant system. That is, the Commonwealth Grants Commission does not directly recognise the State's relative capital expenditure needs in its formula for allocating GST revenue grants among the states.

- 4.53 As stated by the Chamber of Commerce and Industry:¹⁹²

While State Government funds infrastructure investments, the benefits typically flow to the Commonwealth, with no adjustment made to reflect that the State Government paid for the infrastructure. Not only is this unjust, it also sets up perverse incentives.

¹⁹¹ Submission No 30 from the Western Australian Departments of Treasury and Finance, Industry and Resources, and Local Government and Regional Development, February 2004, pii.

¹⁹² Letter from Mr Ross McLean, Acting Chief Executive, Chamber of Commerce and Industry to Hon John Howard MP, Prime Minister, May 21 2004.

4.54 The WA Government raised this issue with the Commonwealth Grants Commission during the Commonwealth Grants Commission's most recent five-year review. However, the Commonwealth Grants Commission still does not take into account State expenditure on economic development. As stated by Mr Scherini, Assistant Director, Intergovernmental Relations, Department of Treasury and Finance, at a hearing on April 19 2004:¹⁹³

Recently we have come to the end of one of the major five-year Commonwealth Grants Commission reviews. During that review, one of the major arguments we put forward to the Grants Commission was that it was redistributing royalty revenue around the nation but it was not taking anywhere near adequate account of our economic development expenditures ... Coming out of the Grants Commission's 2004 review was a mixed outcome. We have more recognition of the State's social capital expenditure requirements, which is a good thing. The Grants Commission has not accepted our arguments in relation to assistance of more direct benefit to companies; for example, the Grants Commission still does not accept the common user infrastructure on the Burrup Peninsula as something that it should recognise in its assessments. I do not believe that the money we spend on exploring the State to discover where the mineral deposits are is recognised by the Grants Commission in its assessments. However, we do have better recognition of our social capital expenditure needs and state road needs, but we still have a major problem with the Grants Commission process in that a lot of our economic development expenditures are not being accounted for by the Commonwealth Grants Commission.

4.55 The Treasurer advised the Committee that the scope of the Commonwealth Grants Commission's assessments does not currently extend to the State's differential needs relating to:¹⁹⁴

- *subsidies to public corporations for providing infrastructure for industry development (e.g. for the gas processing industry on the Burrup Peninsula);*
- *spending on access roads for industry;*
- *grants to the private sector in support of industry development;*

¹⁹³ Mr Alex Scherini, Assistant Director, Intergovernmental Relations, Department of Treasury and Finance, *Transcript of Evidence*, April 19 2004, p10.

¹⁹⁴ Letter from Hon Eric Ripper MLA, Deputy Premier, Treasurer, July 29 2004.

- *activities where costs are funded through cross subsidies (e.g. Western Australia's uniform tariff policy on electricity charges, where high costs in the State's regional and remote areas are cross-subsidised by higher than full cost recovery prices in the metropolitan area); and*
- *certain other activities undertaken by State agencies to support industry development (e.g. the State's geological mapping program, industry promotion events etc).*

4.56 The Department of Treasury and Finance advised the Committee that the State has no central registry of industry support projects. However, the Committee was advised that the State capital works program (totalling \$3.9 billion in 2004-05) includes significant spending on industry support projects.¹⁹⁵

4.57 Of the projects that are undertaken by the State, whilst some are expected to fully recover their costs through users charges, some of the projects are subsidised from the State budget. There is no significant cost recovery for roads or social infrastructure.¹⁹⁶

Committee Comment

4.58 The Committee is of the view that the Commonwealth Grants Commission should take into account state expenditure, in support of the resource industry, in the grant allocation process. The resource industry royalties that a state receives are effectively reduced indirectly by the Commonwealth Grants Commission allocation process. This process effectively redistributes the value of the royalties to other states. The Commonwealth Grants Commission allocation process makes no recognition of a state's contribution to supporting the resource industry.

¹⁹⁵ Letter from Mr Alex Scherini, Assistant Director, Intergovernmental Relations, Department of Treasury and Finance, June 4 2004.

¹⁹⁶ Ibid.

Recommendation 5: The Committee recommends that:

- the Department of Treasury and Finance maintain a central registry of industry support projects, including reference by industry and location;
- the Department of Treasury and Finance undertake an analysis of the financial contribution made by the State Government and each Western Australian local government authority to:
 - a) facilitate the resource industry, and
 - b) sustain viable communities to accommodate resource industry employees;

and
- the Minister for Federal Affairs recommend to the Commonwealth Minister responsible for the *Commonwealth Grants Commission Act 1973*, that steps be undertaken to investigate ways in which the Commonwealth Grants Commission may take into account the results of this analysis when it makes inquiries and reports on how grants are to be distributed between the States and Territories.

Recommendation 6: The Committee recommends that the Minister for Federal Affairs recommend to the Commonwealth Minister responsible for the *Commonwealth Grants Commission Act 1973*, that steps be undertaken to investigate ways in which the Commonwealth Grants Commission may take into account the needs of regional Western Australia when it makes inquiries and reports on how grants are to be distributed between the States and Territories.

THE IMPACT OF STATE AGREEMENT ACTS ON STATE REVENUE

4.59 The Committee wrote to the Treasurer seeking to obtain an understanding of the impact of State Agreement Acts on State revenue, and specifically asking:¹⁹⁷

- i) What is the total direct expenditure made by the State to satisfy the commitments given by the State in State Agreement Acts?
- ii) What is the total direct expenditure made by the State in support of projects that are the subject of State Agreement Acts?

¹⁹⁷

Letter to Hon Eric Ripper MLA, Deputy Premier, Treasurer, July 2 2004.

- iii) What income has been foregone by the State to satisfy the commitments given by the State in State Agreement Acts?
- iv) What income has been received by the State from projects that are the subject of State Agreement Acts?
- 4.60 The response received from the Treasurer indicated that to attempt to answer the questions for each project would be resource intensive and advised that the Minister for State Development and his Department would be better placed to respond.¹⁹⁸
- 4.61 The Department of Industry and Resources confirmed this advice. They advised that:¹⁹⁹

... this would be an extensive research task over many months.

There is not a specific Departmental records file that has answers to the questions the Subcommittee raises. ...

- 4.62 The questions asked by the Committee were focused towards obtaining an overall view of the benefits and costs of State Agreement Acts to the State as a whole. Unless cumulative and comparative records are kept, or are able to be created readily, this broader picture is unobtainable.

Recommendation 7: The Committee recommends that the Department of Industry and Resources should review their record keeping practices in relation to State Agreement Acts with a view to ensuring that information of the type referred to in paragraph 4.59 is obtained, kept and able to be provided readily.

¹⁹⁸ Letter from Hon Eric Ripper MLA, Deputy Premier, Treasurer, July 29 2004.

¹⁹⁹ Letter from Dr Jim Limerick, Director General, Department of Industry and Resources, September 29 2004.

CHAPTER 5

FINDINGS AND RECOMMENDATIONS

FINDINGS

- 5.1 In its inquiry the Committee has found that certain local government authorities in some regional areas of WA have been disadvantaged due to the local government rating concession and exemption provisions contained in State Agreement Acts. These provisions have restricted the revenue raising ability of the local government authorities. These local government authorities have not been compensated for this restriction.
- 5.2 The majority of the Committee has found that these affected local government authorities are experiencing the added burden of infrastructure provision and maintenance associated with resource projects. The majority of the Committee is of the view that the key issue facing these local government authorities is their inability to fund this maintenance of infrastructure out of their own revenue.
- 5.3 The majority of the Committee found that funding support currently provided by the State Government to the regions does not appear to be generally directed to the on-going maintenance of the existing infrastructure but is instead allocated to a range of services, capital works and programs. Furthermore, as submitted by some local government authorities, where funding is allocated for the upgrade of facilities it does not cover the cost of the whole project but only a portion of it.
- 5.4 At present, local government authorities in rural and regional areas are experiencing a shortfall in fiscal capacity relative to the metropolitan region and are strongly reliant on grants and subsidies.
- 5.5 The Committee finds that the work of affected local government authorities in regional areas would be enhanced by greater surety in their financial base, especially given the Western Australian Local Government Grants Commission processes in determining grants to local government.
- 5.6 The majority of the Committee is of the view that the affected local government authorities in regional areas require additional funding assistance.
- 5.7 The Committee recognises the negative impact on WA's revenue given the process of the Commonwealth Grants Commission's distribution of grants to the State. However, the majority of the Committee is of the view that State funding to the regional areas where State Agreement Acts impact upon local government authorities, should be increased.

- 5.8 The majority of the Committee is of the view that the increased State funding referred to in paragraph 5.7 should be in the form of targeted/specific purpose funding, in a fair and equitable manner, to provide for the maintenance costs and ongoing costs required for existing infrastructure and facilities. The majority of the Committee considers that any increases in spending by government and industry to new infrastructure provision would exacerbate the problem being faced by affected local government authorities, as this would increase the maintenance costs and ongoing costs required for existing infrastructure and facilities.
- 5.9 The majority of the Committee is of the view that the State should immediately provide funding support, on a needs basis and with full accountability, to the affected local government authorities in regional areas of WA, in a manner that does not impact on the local government authorities' grants. This funding support should continue until such time as the problems of affected local government authorities, identified in this report, are resolved.
- 5.10 The majority of the Committee is of the view that, in relation to existing State Agreement Acts, the State Government should enter into negotiations with the parties to the State Agreement Acts, with a view to negotiating a restitution to negate the impact of the rating restrictions imposed on certain local government authorities under State Agreement Acts.

RECOMMENDATIONS

Recommendation 8: The Committee recommends that the State should immediately provide funding support, on a needs basis and with full accountability, to the affected local government authorities in regional areas of Western Australia, in a manner that does not impact on the local government authorities' grants. This funding support should continue until such time as the problems of affected local government authorities, identified in this report, are resolved.

Hons Ed Dermer, Ken Travers and Sue Ellery MLCs dissent from Recommendation 8.

Recommendation 9: The Committee recommends that, in relation to existing State Agreement Acts, the State Government should enter into negotiations with the parties to the State Agreement Acts, with a view to negotiating a restitution to negate the impact of the rating restrictions imposed on certain local government authorities under State Agreement Acts.

Hons Ed Dermer, Ken Travers and Sue Ellery MLCs dissent from Recommendation 9.



Hon Barry House MLC
Chairman
November 19 2004

APPENDIX 1
PEOPLE TO WHOM THE COMMITTEE WROTE

PEOPLE TO WHOM THE COMMITTEE WROTE

Name	Title	Company
Ms R Crane	Director	Pilbara Development Commission
Mr T Ruland	Chief Executive Officer	Pilbara Regional Council
Mr I Taylor	Chairman	Regional Development Council
Mr C Nicholl	President	Western Australian Farmers Federation
Mr B Court	President	Pastoralists and Graziers Association
Mr P Lalor	Chair	The Chamber of Minerals and Energy
Mr D Argus	Chairman	BHP Billiton Limited
Ms Ricky Burgess	Chief Executive Officer	Western Australian Local Government Association
Mr K Antonio	A/Chief Executive Officer	Gascoyne Development Commission
Mr C Purcell	Chief Executive Officer	Goldfields Esperance Development Commission
Mr Bruce Manning	Chief Executive Officer	Great Southern Development Commission
Mr J Gooding	Chief Executive Officer	Kimberley Development Commission
Mr G Baesjou	Chief Executive Officer	Mid West Development Commission
Ms M DeLacey	Chief Executive Officer	Peel Development Commission

Name	Title	Company
Ms R Crayne	Chief Executive Officer	Pilbara Development Commission
Mr D Punch	Chief Executive Officer	South West Development Commission
Mr D Singe	Chief Executive Officer	Wheatbelt Development Commission
Mr I Steele	Chief Executive Officer	Bunbury-Harvey Regional Council
Mr Gavin Watters	Chief Executive Officer	East Metropolitan Regional Council
Mr R Boucher	Chief Executive Officer	Geraldton-Greenough Regional Council
Mr K Poynton	Chief Executive Officer	Mindarie Regional Council
Mr A Cooper	Chief Executive Officer	Pilbara Regional Council
Mr H McKenzie	Secretary	South East Metropolitan Regional Council
Mr S McAll	Chief Executive Officer	Southern Metropolitan Regional Council
Mr C Burton	Chief Executive Officer	Western Metropolitan Regional Council
Ms J Sheehan	Chief Executive Officer	Avon Regional Organisation of Councils
Ms K Walford	Executive Officer	CAPEROC (WA)
Mr Kenn Donohoe	Executive Officer	North Eastern Wheatbelt Regional Organisation of Councils
Cr Vic Haeuster	Chairperson	North Midlands Voluntary Regional Organisation of Councils

Name	Title	Company
Mr Andrew Hammond	Secretary	Rainbow Coast Regional Council
Chief Executive Officer and Councillors C/O Mr A Hammond	Chief Executive Officer	City of Albany
Chief Executive Officer and Councillors C/O Mr R Tame	Chief Executive Officer	Shire of Armadale
Chief Executive Officer and Councillors C/O Mr S Deckert	Chief Executive Officer	Shire of Ashburton
Chief Executive Officer and Councillors C/O Mr I Bodill	Chief Executive Officer	Shire of Augusta-Margaret River
Chief Executive Officer and Councillors C/O Mr G Evershed	Chief Executive Officer	Town of Bassendean
Chief Executive Officer and Councillors C/O Mr M Carosella	Chief Executive Officer	City of Bayswater
Chief Executive Officer and Councillors C/O M B Genoni	Chief Executive Officer	City of Belmont
Chief Executive Officer and Councillors C/O Mr Keith Byers	Chief Executive Officer	Shire of Beverley

Name	Title	Company
Chief Executive Officer and Councillors C/O Mr P Bradbrook	Chief Executive Officer	Shire of Boddington
Chief Executive Officer and Councillors C/O Mr W Pearce	Chief Executive Officer	Shire of Boyup Brook
Chief Executive Officer and Councillors C/O Mr T Clynch	Acting Chief Executive Officer	Shire of Bridgetown- Greenbushes
Chief Executive Officer and Councillors C/O Mr I Curley	Chief Executive Officer	Shire of Brookton
Chief Executive Officer and Councillors C/O Mr G Powell	Chief Executive Officer	Shire of Broome
Chief Executive Officer and Councillors C/O Mr P Fitzgerald	Chief Executive Officer	Shire of Broomehill
Chief Executive Officer and Councillors C/O Mr S O'Halloran	Chief Executive Officer	Shire of Bruce Rock
Chief Executive Officer and Councillors C/O Mr G Trevaskis	Chief Executive Officer	City of Bunbury
Chief Executive Officer and Councillors	Chief Executive Officer	Shire of Busselton

Name	Title	Company
C/O Mr A Macnish		
Chief Executive Officer and Councillors C/O Mr G Partridge	Chief Executive Officer	Town of Cambridge
Chief Executive Officer and Councillors C/O Mr I Kinner	Chief Executive Officer	City of Canning
Chief Executive Officer and Councillors C/O Mr P Sheedy	Chief Executive Officer	Shire of Capel
Chief Executive Officer and Councillors C/O Mr L Farrell	Chief Executive Officer	Shire of Carnamah
Chief Executive Officer and Councillors C/O Mr C Strugnell	Chief Executive Officer	Shire of Carnarvon
Chief Executive Officer and Councillors C/O Mr M Battilana	Chief Executive Officer	Shire of Chapman Valley
Chief Executive Officer and Councillors C/O Mr R Hooper	Chief Executive Officer	Shire of Chittering
Chief Executive Officer and Councillors C/O Mr G Dunt	Chief Executive Officer	Shire of Christmas Island
Chief Executive Officer	Chief Executive Officer	Town of Claremont

Name	Title	Company
and Councillors C/O Mr A Kyron		
Chief Executive Officer and Councillors C/O Mr R Brown	Chief Executive Officer	Shire of Cockburn
Chief Executive Officer and Councillors C/O Mr B Jarvis	Chief Executive Officer	Shire of Cocos (Keeling) Islands
Chief Executive Officer and Councillors C/O Mr I Miffling	Chief Executive Officer	Shire of Collie
Chief Executive Officer and Councillors C/O Mr J Fraser	Chief Executive Officer	Shire of Coolgardie
Chief Executive Officer and Councillors C/O Mr G Sherry	Chief Executive Officer	Shire of Coorow
Chief Executive Officer and Councillors C/O Mr B Mead	Chief Executive Officer	Shire of Corrigin
Chief Executive Officer and Councillors C/O Mr S Tindale	Chief Executive Officer	Shire of Cottesloe
Chief Executive Officer and Councillors C/O Mr G Stanley	Chief Executive Officer	Shire of Cranbrook

Name	Title	Company
Chief Executive Officer and Councillors C/O Mr P Naylor	Chief Executive Officer	Shire of Cuballing
Chief Executive Officer and Councillors C/O Mr S Scott	Chief Executive Officer	Shire of Cue
Chief Executive Officer and Councillors C/O Mr K Petit	Chief Executive Officer	Shire of Cunderdin
Chief Executive Officer and Councillors C/O Mr B Atkinson	Chief Executive Officer	Shire of Dalwallinu
Chief Executive Officer and Councillors C/O Mr B Golding	Chief Executive Officer	Shire of Dandaragan
Chief Executive Officer and Councillors C/O Mr M Chester	Chief Executive Officer	Shire of Dardanup
Chief Executive Officer and Councillors C/O Mr P Durtanovich	Chief Executive Officer	Shire of Denmark
Chief Executive Officer and Councillors C/O Mr J Throssell	Chief Executive Officer	Shire of Derby-West Kimberley
Chief Executive Officer and Councillors	Chief Executive Officer	Shire of Donnybrook-Balingup

Name	Title	Company
C/O Mr J Attwood		
Chief Executive Officer and Councillors C/O Mr L Crichton	Chief Executive Officer	Shire of Dowerin
Chief Executive Officer and Councillors C/O Mr I Craven	Chief Executive Officer	Shire of Dumbleyung
Chief Executive Officer and Councillors C/O Mr B Willoughby	Chief Executive Officer	Shire of Dundas
Chief Executive Officer and Councillors C/O Mr S Wearne	Chief Executive Officer	Town of East Fremantle
Chief Executive Officer and Councillors C/O Mr A Cooper	Chief Executive Officer	Shire of East Pilbara
Chief Executive Officer and Councillors C/O Mr M Archer	Chief Executive Officer	Shire of Esperance
Chief Executive Officer and Councillors C/O Mr K Graham	Chief Executive Officer	Shire of Exmouth
Chief Executive Officer and Councillors C/O Mr R Glickman	Chief Executive Officer	City of Fremantle
Chief Executive Officer	Chief Executive Officer	City of Geraldton

Name	Title	Company
and Councillors C/O Mr R Jefferies		
Chief Executive Officer and Councillors C/O Mr S Fraser	Chief Executive Officer	Shire of Gingin
Chief Executive Officer and Councillors C/O Mr F Ludovico	Chief Executive Officer	Shire of Gnowangerup
Chief Executive Officer and Councillors C/O Mr C Kerp	Chief Executive Officer	Shire of Goomalling
Chief Executive Officer and Councillors C/O Mr S Jardine	Chief Executive Officer	City of Gosnells
Chief Executive Officer and Councillors C/O Mr B Perry	Chief Executive Officer	Shire of Greenough
Chief Executive Officer and Councillors C/O Mr P McConnell	Chief Executive Officer	Shire of Halls Creek
Chief Executive Officer and Councillors C/O Mr K Leece	Chief Executive Officer	Shire of Harvey
Chief Executive Officer and Councillors C/O Mr J Merrick	Chief Executive Officer	Shire of Irwin

Name	Title	Company
Chief Executive Officer and Councillors C/O Mr D Long	Chief Executive Officer	Shire of Jerramungup
Chief Executive Officer and Councillors C/O Mr D Smith	Chief Executive Officer	City of Joondalup
Chief Executive Officer and Councillors C/O Mr D Vaughan	Chief Executive Officer	Shire of Kalamunda
Chief Executive Officer and Councillors C/O Mr I Fletcher	Chief Executive Officer	Shire of Kalgoorlie-Boulder
Chief Executive Officer and Councillors C/O Mr B Jones	Chief Executive Officer	Shire of Katanning
Chief Executive Officer and Councillors C/O Mr F Peczka	Chief Executive Officer	Shire of Kellerberrin
Chief Executive Officer and Councillors C/O Mr I Fitzgerald	Chief Executive Officer	Shire of Kent
Chief Executive Officer and Councillors C/O Mr W Lenyszyn	Chief Executive Officer	Shire of Kojonup
Chief Executive Officer and Councillors	Chief Executive Officer	Shire of Kondinin

Name	Title	Company
C/O Mr G Hadlow		
Chief Executive Officer and Councillors C/O Mr G McDonald	Chief Executive Officer	Shire of Koorda
Chief Executive Officer and Councillors C/O Mr B Price	Chief Executive Officer	Shire of Kulin
Chief Executive Officer and Councillors C/O Mr R Searle	Chief Executive Officer	Town of Kwinana
Chief Executive Officer and Councillors C/O Mr N Hale	Chief Executive Officer	Shire of Lake Grace
Chief Executive Officer and Councillors C/O Mr M Brown	Chief Executive Officer	Shire of Laverton
Chief Executive Officer and Councillors C/O Mr J Epis	Chief Executive Officer	Shire of Leonora
Chief Executive Officer and Councillors C/O Mr M Newman	Chief Executive Officer	City of Mandurah
Chief Executive Officer and Councillors C/O Mr V McKay	Chief Executive Officer	Shire of Manjimup
Chief Executive Officer	Chief Executive Officer	Shire of Meekatharra

Name	Title	Company
and Councillors C/O Mr T Hartman		
Chief Executive Officer and Councillors C/O Mr J McNally	Chief Executive Officer	Shire of Melville
Chief Executive Officer and Councillors C/O Mr M Cheverton	Chief Executive Officer	Shire of Menzies
Chief Executive Officer and Councillors C/O Mr P Anastasakis	Chief Executive Officer	Shire of Merredin
Chief Executive Officer and Councillors C/O Mr H Van Der Ende	Chief Executive Officer	Shire of Mingenew
Chief Executive Officer and Councillors C/O Mr P Stubbs	Chief Executive Officer	Shire of Moora
Chief Executive Officer and Councillors C/O Mr G Merrick	Chief Executive Officer	Shire of Morowa
Chief Executive Officer and Councillors C/O Mr T Harken	Chief Executive Officer	Town of Mosman Park
Chief Executive Officer and Councillors C/O Mr P Webster	Chief Executive Officer	Shire of Mount Magnet

Name	Title	Company
Chief Executive Officer and Councillors C/O Mr K Donohoe	Chief Executive Officer	Shire of Mt Marshall
Chief Executive Officer and Councillors C/O Mr A Borrett	Chief Executive Officer	Shire of Mukinbudin
Chief Executive Officer and Councillors C/O Mr G Wilks	Chief Executive Officer	Shire of Mullewa
Chief Executive Officer and Councillors C/O Mr M Williams	Chief Executive Officer	Shire of Mundaring
Chief Executive Officer and Councillors C/O Mr N Warne	Chief Executive Officer	Shire of Murchison
Chief Executive Officer and Councillors C/O Mr N Leach	Chief Executive Officer	Shire of Murray
Chief Executive Officer and Councillors C/O Mr S Collie	Chief Executive Officer	Shire of Nannup
Chief Executive Officer and Councillors C/O Mr A Wright	Chief Executive Officer	Shire of Narembeen
Chief Executive Officer and Councillors	Chief Executive Officer	Shire of Narrogin

Name	Title	Company
C/O Mr G McKeown		
Chief Executive Officer and Councillors C/O Mr G O'Neill	Chief Executive Officer	Town of Narrogin
Chief Executive Officer and Councillors C/O Mr S Silcox	Chief Executive Officer	City of Nedlands
Chief Executive Officer and Councillors C/O Mr C Paget	Chief Executive Officer	Shire of Ngaanyatjaraku
Chief Executive Officer and Councillors C/O Mr A Middleton	Chief Executive Officer	Shire of Northam
Chief Executive Officer and Councillors C/O Mr D Burnett	Chief Executive Officer	Town of Northam
Chief Executive Officer and Councillors C/O Mr G Keeffe	Chief Executive Officer	Shire of Northampton
Chief Executive Officer and Councillors C/O Mr B Fensome	Chief Executive Officer	Shire of Nungarin
Chief Executive Officer and Councillors C/O Mr G Simpson	Chief Executive Officer	Shire of Peppermint Grove
Chief Executive Officer	Chief Executive Officer	Shire of Perenjori

Name	Title	Company
and Councillors C/O Mr B Thompson		
Chief Executive Officer and Councillors Mr F Edwards	Chief Executive Officer	City of Perth
Chief Executive Officer and Councillors C/O Mr G Carter	Acting Chief Executive Officer	Shire of Pingelly
Chief Executive Officer and Councillors C/O Mr R Stewart	Chief Executive Officer	Shire of Plantagenet
Chief Executive Officer and Councillors C/O Mr T Ford	Chief Executive Officer	Town of Port Hedland
Chief Executive Officer and Councillors C/O Mr G Fardon	Chief Executive Officer	Shire of Quairading
Chief Executive Officer and Councillors C/O Mr S Taylor	Chief Executive Officer	Shire of Ravensthorpe
Chief Executive Officer and Councillors C/O Mr G Holland	Chief Executive Officer	City of Rockingham
Chief Executive Officer and Councillors C/O Mr T Ruland	Chief Executive Officer	Shire of Roebourne

Name	Title	Company
Chief Executive Officer and Councillors C/O Mr K Hastie	Chief Executive Officer	Shire of Standstone
Chief Executive Officer and Councillors C/O Mr D Price	Chief Executive Officer	Shire of Serpentine-Jarrahdale
Chief Executive Officer and Councillors C/O Mr M Hook	Chief Executive Officer	Shire of Shark Bay
Chief Executive Officer and Councillors C/O Mr S Goode	Chief Executive Officer	City of South Perth
Chief Executive Officer and Councillors C/O Mr L Delahaunty	Chief Executive Officer	City of Sterling
Chief Executive Officer and Councillors C/O Mr C Burton	Chief Executive Officer	City of Subiaco
Chief Executive Officer and Councillors C/O Mr E Lumsden	Chief Executive Officer	City of Swan
Chief Executive Officer and Councillors C/O Ms J Trezona	Chief Executive Officer	Shire of Tambellup
Chief Executive Officer and Councillors	Chief Executive Officer	Shire of Tammin

Name	Title	Company
C/O Mr Frank Peczka		
Chief Executive Officer and Councillors C/O Mr G Little	Chief Executive Officer	Shire of Three Springs
Chief Executive Officer and Councillors C/O Mr I Stubbs	Chief Executive Officer	Shire of Toodyay
Chief Executive Officer and Councillors C/O Mr K Dickson	Chief Executive Officer	Shire of Trayning
Chief Executive Officer and Councillors C/O Mr J Newton	Chief Executive Officer	Shire of Upper Gascoyne
Chief Executive Officer and Councillors C/O Mr J Bonker	Chief Executive Officer	Town of Victoria Park
Chief Executive Officer and Councillors C/O Mr P Anning	Chief Executive Officer	Shire of Victoria Plains
Chief Executive Officer and Councillors C/O Mr J Giorgi	Chief Executive Officer	Town of Vincent
Chief Executive Officer and Councillors C/O Mr M Parker	Chief Executive Officer	Shire of Wagin
Chief Executive Officer	Chief Executive Officer	Shire of Wandering

Name	Title	Company
and Councillors C/O Mr M Oliver		
Chief Executive Officer and Councillors C/O Mr C Johnson	Chief Executive Officer	City of Wanneroo
Chief Executive Officer and Councillors C/O Mr K O'Connor	Chief Executive Officer	Shire of Waroona
Chief Executive Officer and Councillors C/O Mr N Mason	Acting Chief Executive Officer	Shire of West Arthur
Chief Executive Officer and Councillors C/O Mr J Murphy	Chief Executive Officer	Shire of Westonia
Chief Executive Officer and Councillors C/O Mr Calneggia	Chief Executive Officer	Shire of Wickepin
Chief Executive Officer and Councillors C/O Mr J Epiro	Chief Executive Officer	Shire of Williams
Chief Executive Officer and Councillors C/O Mr T Doust	Chief Executive Officer	Shire of Wiluna
Chief Executive Officer and Councillors C/O Mr A Moles	Chief Executive Officer	Shire of Wongan-Ballidu

Name	Title	Company
Chief Executive Officer and Councillors C/O Ms B Knight	Chief Executive Officer	Shire of Woodanilling
Chief Executive Officer and Councillors C/O Mr M Keeble	Chief Executive Officer	Shire of Wyalkatchem
Chief Executive Officer and Councillors C/O Mr C Adams	Chief Executive Officer	Shire of Wyndham-East Kimberley
Chief Executive Officer and Councillors C/O Mr W Olsen	Chief Executive Officer	Shire of Yalgoo
Chief Executive Officer and Councillors C/O Mr P Clarke	Chief Executive Officer	Shire of Yilgam
Chief Executive Officer and Councillors C/O Mr P Marshall	Chief Executive Officer	Shire of York
Dr F Harman	Senior Lecturer, Economics	Murdoch University

APPENDIX 2
WRITTEN SUBMISSIONS RECEIVED BY THE COMMITTEE

WRITTEN SUBMISSIONS RECEIVED BY THE COMMITTEE

From	Date	Number
Pilbara Regional Council	19.12.03	1.
Shire of Chapman Valley	17.12.03	2.
Mingenew Shire Council	23.12.03	3.
Shire of Cuballing	18.12.03	4.
Shire of Yilgarn	23.12.03	5.
Shire of Waroona	07.01.04	6.
City of Joondalup	15.01.04	7.
Shire of Collie	19.01.04	8.
GoldFields - Esperance Development Commission	15.01.04	9.
City of Kalgoorlie - Boulder	19.01.04	10.
Gascoyne Development Commission	22.01.04	11.
Town of Kwinana	22.01.04	12.
Shire of Boddington	23.01.04	13.
South West Development Commission	27.01.04	14.
Australian Petroleum Production and Exploration Association Ltd	27.01.04	15.
Rio Tinto Iron Ore	27.01.04	16.
Woodside Energy Ltd	28.01.04	17.
Shire of Boyup Brook	28.01.04	18.
Shire of Roebourne	28.01.04	19.
Chamber of Commerce and Industry	29.01.04	20.
City of Rockingham	27.01.04	21.
City of Swan	28.01.04	22.
City of Melville	28.01.04	23.

From	Date	Number
Shire of East Pilbara	29.01.04	24.
City of Bunbury	09.01.04	25.
Western Australian Local Government Association	02.02.04	26.
WA Local Governments Grants Commission	06.02.04	27.
Shire of Murray	02.02.04	28.
Pilbara Development Commission	19.02.04	29.
Departments of Treasury and Finance, Industry and Resources and Local Government and Regional Development	19.02.04	30.
BHP Billiton Iron Ore	23.02.04	31.
Regional Development Council	23.02.04	32.
Shire of Gnowangerup	17.02.04	33.
The Chamber of Minerals and Energy of Western Australia Inc	27.02.04	34.

APPENDIX 3

WITNESSES WHO GAVE EVIDENCE TO THE COMMITTEE

WITNESSES WHO GAVE EVIDENCE TO THE COMMITTEE

Date	Witness
April 5 2004	Mr Ray Hadlow, Director, Mansell Pty Ltd
April 19 2004	Mr James Johnston, A/Principal Research Officer Intergovernmental Relations, Department of Treasury and Finance Mr Mark Altus, Director Intergovernmental Relations, Department of Treasury and Finance Mr Alex Scherini, A/Director Intergovernmental Relations, Department of Treasury and Finance
April 19 2004	Mr John Lynch Chairman, WA Local Government Grants Commission Mr Chris Berry, Manager, WA Local Government Grants Commission
April 19 2004	Mr Bill Sashegyi, Director of Industry Policy, Chamber of Commerce and Industry Mr John Rampton, Industry Development Advisor, Chamber of Commerce and Industry
April 19 2004	Mr Stedman Ellis, Vice President - External Affairs, BHP Billiton Iron Ore
May 3 2004	Mr Anthony Ford, Chief Executive Officer, Town of Port Hedland and member of the Pilbara Regional Council Mr Kevin Richards, Chairperson, Pilbara Regional Council
May 10 2004	Cr Clive Robartson, President, WA Local Government Association Mr Bruce Wittber, Policy Manager Governance, WA Local Government Association

APPENDIX 4
STATE AGREEMENT ACTS

STATE AGREEMENT ACTS

- Alumina Refinery Agreement Act 1961
- Alumina Refinery (Mitchell Plateau) Agreement Act 1971
- Alumina Refinery (Pinjarra) Agreement Act 1969
- Alumina Refinery (Wagerup) Agreement and Acts Amendment Act 1978
- Alumina Refinery (Worsley) Agreement Act 1973
- Wundowie Charcoal Iron Industry Sale Agreement Act 1974
- Collie Coal (Griffin) Agreement Act 1979
- Collie Coal (Western Collieries) Agreement Act 1979
- Western Mining Corporation Limited (Throssell Range) Agreement Act 1985
- Diamond (Argyle Diamond Mines Joint Venture) Agreement Act 1981
- Goldfields Gas Pipeline Agreement Act 1994
- Pilbara Energy Project Agreement Act 1994
- Ord River Hydro Energy Project Agreement Act 1994
- Albany Hardwood Plantation Agreement Act 1993
- Bunbury Treefarm Project Agreement Act 1995
- Collie Hardwood Plantation Agreement Act 1995
- Dardanup Pine Log Sawmill Agreement Act 1992
- Paper Mill Agreement Act 1960
- Wesply (Dardanup) Agreement Authorization Act 1975
- Wood Chipping Industry Agreement Act 1969
- Wood Processing (WESFI) Agreement Act 2000
- Wood Processing (Wesbeam) Agreement Act 2002

- North West Gas Development (Woodside) Agreement Act 1979
- Barrow Island Act 2003 (Gorgon)
- Tailings Treatment (Kalgoorlie) Agreement Act 1988
- Broken Hill Proprietary Company's Integrated Steel Works Agreement Act 1960
- Broken Hill Proprietary Steel Industry Agreement Act 1952
- Iron Ore (The Broken Hill Proprietary Company Limited) Agreement Act 1964
- Iron Ore (Channar Joint Venture) Agreement Act 1987
- Iron Ore (Goldsworthy-Nimingarra) Agreement Act 1972
- Iron Ore (Hamersley Range) Agreement Act 1963
- Iron Ore (Hamersley Range) Agreement Act Amendment Act 1968
- Iron Ore (Hope Downs) Agreement Act 1992
- Iron Ore (McCamey's Monster) Agreement Authorization Act 1972
- Iron Ore (Marillana Creek) Agreement Act 1991
- Iron Ore (Mount Bruce) Agreement Act 1972
- Iron Ore (Mount Goldsworthy) Agreement Act 1964
- Iron Ore (Mount Newman) Agreement Act 1964
- Iron Ore (Murchison) Agreement Authorization Act 1973
- Iron Ore (Rhodes Ridge) Agreement Authorization Act 1972
- Iron Ore (Robe River) Agreement Act 1964
- Iron Ore (Wittenoom) Agreement Act 1972
- Iron Ore Processing (BHP Minerals) Agreement Act 1994
- Iron Ore Beneficiation (BHP) Agreement Act 1996
- Iron Ore Direct Reduced Iron (BHP) Agreement Act 1996
- Iron Ore (Yandicoogina) Agreement Act 1996

- Iron and Steel (Mid West) Agreement Act 1997
- Iron Ore Processing (Mineralogy Pty Ltd) Agreement Act 2002
- Mineral Sands (Eneabba) Agreement Act 1975
- Mineral Sands (Cooljarloo) Mining and Processing Agreement Act 1988
- Mineral Sands (Beenup) Agreement Act 1995
- Nickel (Agnew) Agreement Act 1974
- Nickel Refinery (Western Mining Corporation Limited) Agreement Act 1968
- Nickel Refinery (Western Mining Corporation Limited) Agreement Act Amendment Act 1970
- Poseidon Nickel Agreement Act 1971
- Oil Refinery (Kwinana) Agreement Act 1952
- Dampier Solar Salt Industry Agreement Act 1967
- Evaporites (Lake MacLeod) Agreement Act 1967
- Leslie Solar Salt Industry Agreement Act 1966
- Onslow Solar Salt Agreement Act 1992
- Shark Bay Solar Salt Industry Agreement Act 1983
- Uranium (Yeelirrie) Agreement Act 1978
- Cement Works (Cockburn Cement Limited) Agreement Act 1971
- Industrial Lands (CSBP & Farmers Limited) Agreement Act 1976
- Industrial Lands (Kwinana) Agreement Act 1964
- Pigment Factory (Australind) Agreement Act 1986
- Silicon (Kemerton) Agreement Act 1987

APPENDIX 5
EXAMPLE OF A TYPICAL RATING PROVISION CONTAINED IN A STATE
AGREEMENT ACT

Iron Ore Processing (BHP Minerals) Agreement Act 1994**Schedule 1**

Zoning

30. The State shall ensure after consultation with the relevant local authority that the sites for projects the subject of approved proposals and any other lands the subject of any lease, licence or other title granted to the Company under this Agreement shall be and remain zoned for use or otherwise protected during the currency of this Agreement so that the activities of the Company hereunder may be undertaken and carried out thereon without any interference or interruption by the State or by any State agency or instrumentality or by any local or other authority of the State on the ground that such activities are contrary to any zoning, by-law, regulation or order.

Rating

31. (1) The State shall ensure during the currency of this Agreement that notwithstanding the provisions of any Act or anything done or purported to be done under any Act the valuation of the lands the subject of any lease, licence or other title granted pursuant to this Agreement (except any parts of such lands on which accommodation units or housing for the Company's workforce is erected or which is occupied in connection with such accommodation units or housing and except as to any part upon which there stands any improvements that are used in connection with a commercial undertaking not directly related to the activities carried out by the Company pursuant to approved proposals) shall for rating purposes under the *Local Government Act 1960*, be deemed to be on the unimproved value thereof, and no such lands shall be subject to any discriminatory rate.
- (2) It is hereby declared and agreed that the provisions of section 533B of the *Local Government Act 1960* shall not apply to any lands the subject of this Agreement.

No discriminatory rates

32. Except as provided in this Agreement, the State shall not impose, nor shall it permit or authorise any of its agencies or instrumentalities or any local or other authority of the State to impose, discriminatory taxes, rates or charges of any nature whatsoever on or in respect of the titles, property or other assets products, materials or services used or produced by or through the activities of the Company in the conduct of its business hereunder, nor will the State take or permit to be taken by any such State authority any other discriminatory action which would deprive the Company of full enjoyment of the rights granted and intended to be granted under this Agreement.

APPENDIX 6
THE NATIONAL PRINCIPLES

THE NATIONAL PRINCIPLES

The allocation of grants are required by the Commonwealth legislation to be made in accordance with the following **National Principles**:

A. Allocation of general purpose grants

1. Horizontal Equalisation

General purpose grants will be allocated to local governments, as far as practicable, on a full horizontal equalisation basis as defined by the Act. The purpose of horizontal equalisation is to ensure that *‘every local government in the State has the ability to function, by reasonable effort, at a standard not lower than the average standard of other local governments in the State’*.

This means the Commission seeks to equalise the capacity of every local government in the State to provide an average range of services at a standard level.

2. Effort Neutrality

An effort or policy-neutral approach will be used in assessing expenditure requirements and revenue capacity of each local government. This means the revenue raising and expenditure policy decisions made by local governments will not affect the Commission’s assessments and grant determinations. For example, it is not true that a local government that increases or decreases its level of rating will receive an increased grant allocation from the Commission; the actual rating policy does not materially affect the grant determination outcome.

3. Minimum Grant

The minimum grant for a local government will be not less than the amount to which it would be entitled if 30% of the total amount of general purpose (equalisation) grants were allocated on a per capita basis.

4. Other Grant Support

Other relevant grant support provided to local government to meet any of the expenditure needs should be taken into account using an inclusion approach.

5. Aboriginal Peoples and Torres Strait Islanders

Financial assistance shall be allocated to local governments in a way which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

B. Allocation of local road grants

1. Identified Road Component

The identified road component of the financial assistance grants should be allocated to local governments, as far as practicable, on the basis of the relative needs of each local government for roads expenditure and to preserve its road assets.

APPENDIX 7

LOCAL GOVERNMENT EXPENDITURES/REVENUES EXCLUDED IN LOCAL GOVERNMENT GRANTS COMMISSION EQUALISATION MODEL (2003/04)

WA Local Government Grants Commission

6

SCOPE OF THE EQUALISATION MODEL: LOCAL GOVERNMENT EXPENDITURES/REVENUES EXCLUDED IN LOCAL GOVERNMENT GRANTS COMMISSION EQUALISATION MODEL (2003/04):**General Purpose Funding**Rates

Specified area rates, sewerage rates and water rates.

Other General Purpose Funding

Amounts receivable from the Western Australian Local Government Grants Commission

Interest earnings or gains from deposits and investments, including reserve accounts and general overdraft expenses on the municipal fund.

Capital expenditure

Grants for capital expenditures

Loans and borrowings

HealthPreventive Services - Meat Inspections

Carrying out meat inspection services under the Health Act.

Community AmenitiesSanitation - Household

Administration and operation of general refuse collection and disposal services. Includes the collection of general, recyclable and green waste, the delivery to the disposal site or transfer station, provision and maintenance of rubbish disposal sites, regional schemes, recycling depots and transfer stations.

Sanitation - Other

Operation of sanitary services other than for general refuse collection and disposal services. Includes trade and industrial waste disposal, offal and pig swill disposal, industrial waste disposal sites, cleaning of street gutters, verges and public litter bins, special rubbish clean-ups, litter enforcement and control. Contributions, subsidies, donations, etc. (for example, Keep Australia Beautiful Council, tidy towns competition).

Sewerage

The operation of services and facilities for the collection, treatment and disposal of sewerage. Includes the maintenance of deep mains, reticulation, pumps, etc., effluent and sullage drainage disposal systems water treatment systems, septic tank cleaning and inspection and night soil disposal (pan removal). Revenues include sewerage rates, inspection fees, septic tank installation and cleaning fees.

TransportRoad, street and bridge construction

All road construction, including general safety and traffic improvement, and miscellaneous road transport activities. Includes: Bus transport; bikeways.

Parking Facilities

WA Local Government Grants Commission

7

Administration, regulation, control and operation of both on and off street parking areas, multi-purpose and fee paying car parks including those adjacent to sport and recreation facilities such as beach parking, football ground parking, etc.

Traffic Control

Operations relating to the licensing or regulating of traffic under the control of the local government. Includes vehicle registration (plates, discs, stickers), vehicle examination expenses and examination facilities.

Aerodromes

Revenues from aerodromes

Economic Services

Rural Services

Agricultural drainage schemes, flood mitigation and the eradication of fruit fly, noxious weeds (pest plants), and vermin control in rural areas. Includes veterinary schemes, clinics and subsidies in providing these services. Exclude general pest/vermin control in a non-agricultural context e.g. general spraying of mosquito breeding areas.

Tourism and Area Promotion

The development, promotion, support, research, operation, etc., of tourism and area promotion to attract tourists, promotion to attract tourist development such as brochures, contributions to tourist promotion schemes. Includes tourist bureaux, information offices, information bays, roadside bays, scenic lookouts, caravan parks, chalets and camping areas.

Saleyards and Markets

Administration, regulation, inspection and operation of saleyards and markets where sales of rural produce, livestock and other goods are conducted.

Plant Nursery

The provision and operation of a plant nursery used to raise plants for sale or use in the community and the local government's operations. All stock issues should reflect the cost of propagation and be allocated to the function/activity in which they have been used.

Economic Development

The development, promotion, support and research of economic development issues within the community. Includes contributions to business centres and incentives provided for local development.

Public Utility Services

Revenues, charges and outlays associated with the supply of electricity, gas and water supply including electricity extension, water supply (standpipes, reticulation schemes, etc.), reticulation systems and underground power.

Other Economic Services

The provision, supervision and operation of economic services that cannot be assigned to one of the preceding sub-functions/activities.

Other Property and Services

WA Local Government Grants Commission

8

Private Works

Administration, inspection and operation of work carried out on property or services not under the care control and management of the local government. These include road works on private property (or in other local government districts), commissions for agencies and fees for service.

Town Planning Schemes

Administration, planning, support, operation, etc., relating to the betterment of land within a defined scheme area, whereby the sum total of scheme costs is payable by the owners of the existing lots within the scheme area on a contributory basis. Betterment of land shall include the creation of new lots, roads pedestrian access ways, public open space, drainage, lighting, water, sewerage and other costs associated with work in the scheme area.



SECOND SESSION OF THE THIRTY-SIXTH PARLIAMENT

**MINORITY REPORT OF HON ED DERMER MLC, HON KEN
TRAVERS MLC AND HON SUE ELLERY MLC**

**STANDING COMMITTEE ON
PUBLIC ADMINISTRATION AND FINANCE
IN RELATION TO THE
LOCAL GOVERNMENT RATING SYSTEM AND
DISTRIBUTION OF FUNDS**

Report 10 - Minority
November 2004

Minority Report of Hon Ed Dermer MLC, Hon Ken Travers MLC, and Hon Sue Ellery MLC

in relation to the

Local Government Rating System and Distribution of Funds

- 1 A minority of the Committee, Hons Ken Travers, Ed Dermer, and Sue Ellery MLCs (Minority) dissent from paragraph 2.59 and Chapter 5 Findings and Recommendations, and provide the following alternative findings and recommendations.
- 2 A number of local government authorities (LGAs) in regional areas of Western Australia (WA) have provided evidence to the Committee that they are facing financial difficulties and that this is caused in part by rating concession and exemption provisions (rating provisions) contained in State Agreement Acts.
- 3 In their evidence, the LGAs have indicated that these rating provisions have restricted their revenue raising ability and that they have not been compensated for this restriction.
- 4 The Minority accept that these LGAs are currently facing difficult financial circumstances and that if the rating provisions contained in the State Agreement Acts did not exist, they would receive additional rate revenue.
- 5 The Committee has noted a number of the concerns raised by these LGAs, however, it should also be noted that the Committee did not seek to test the propositions.
- 6 Concerns, similar to those put forward by these LGAs have existed in WA for a number of decades. Over these years, these LGAs have not been successful in having them directly addressed by any previous State Government. One of the reasons for these LGAs concerns not being addressed was the lack of quantifiable data on the exact impact of the rating provisions.
- 7 The Minority is therefore concerned that while the Committee has noted the concerns of the LGAs, it has not sought to test the claims, quantify the impact or to fully examine all the underlying causes of the financial circumstances that these LGAs are facing.
- 8 The Minority believe that to address these LGAs' concerns, it is important that a more thorough enquiry is conducted to determine the impact of the rating provisions on the rating revenue and the other funding issues facing these LGAs.

- 9 It is the view of the Minority that the majority of the Committee has failed the affected LGAs by making findings and recommendations without sufficient supporting evidence.
- 10 It is noted that on September 23 2004 the State Government announced a major study into the effects of State Agreement rating clauses on local government revenue based on a representative sample, and invited the WA Local Government Association to participate in the steering committee (see paragraphs 2.45 and 2.46).
- 11 The Minority agree with the Committee's findings at paragraphs 5.4 and 5.5.
- 12 LGAs generate their own income from rates and charges. They receive major funding support from the State and Commonwealth Governments in the form of grants and subsidies, and also receive support from industry in various forms (see Chapter 3).
- 13 Evidence received by the Committee would indicate that it is unlikely any of the regional LGAs affected by the rating provisions would become minimum grant councils (see paragraphs 3.16.1 and 3.17) in the near future. Busselton and Mandurah are the only LGAs in regional WA that are minimum grant councils.
- 14 The Commonwealth effectively determines the amount of recurrent funding that a LGA will receive, unless they are a minimum grant council.
- 15 This is because the WA Local Government Grants Commission (WALGGC) is required to operate under the National Principles, which are set by the Commonwealth. These principles require that the allocation of Commonwealth funding to LGAs seek to equalise the capacity of every local government to provide an average range of services at a standard level.
- 16 This means that for most regional LGAs if they had received additional rate revenue or general purpose funding from the State Government it is likely their Commonwealth financial assistance grant would be substantially reduced (see paragraphs 3.23 to 3.28 and 4.18).
- 17 A capital grant for the construction of facilities currently does not affect the Commonwealth financial assistance grant that a LGA receives (see paragraph 4.15.2).
- 18 Therefore, the most effective way that the State Government can assist a LGA without affecting their Commonwealth assistance is to provide funding for capital projects. A LGA could possibly redirect any proposed capital expenditure into maintenance and ongoing costs of existing infrastructure and facilities.
- 19 The Minority notes that the State Government has announced an \$80 million Regional Investment Fund, a \$20 million Pilbara Fund and a number of smaller programs all of which can assist LGAs to build new facilities or replace existing older facilities.

- 20 The Minority believe that the finding at paragraph 5.8 and Recommendation 8 are unlikely to provide any meaningful assistance to LGAs due to the operation of the Commonwealth's National Principles. The State Government has no ability to change these principles.
- 21 The Minority supports the State Government continuing to identify ways in which it can financially assist regional LGAs, on the basis of need, to make their communities attractive places to live and work in, rather than fly in and fly out of.
- 22 The Minority believe the State Government should actively lobby the Commonwealth Government to amend the current National Principles to enable the State Government and the other parties to State Agreement Acts to provide additional funding to LGAs without reducing their Commonwealth assistance. Further, the Minority support a review of the process by which the WALGGC assesses need.
- 23 Many State Agreement Acts have been in existence for a number of years. A number of the parties to the agreements have made substantial contributions to their local communities over the years. It is, however, appropriate that the rating provisions are regularly reviewed to determine if the exemptions are still justified.
- 24 It is noted that any increase in rates paid by these companies could have the same effect as additional State Government payments.
- 25 However, the Minority supports the State Government continuing to negotiate with other parties to a State Agreement Act to make contributions to the local communities in which they operate. This could include paying rates on Gross Rental Value if it is established that it will improve the financial circumstances of the LGA.

RECOMMENDATIONS

- 26 The Minority agrees with the majority of the Committee on Recommendations 1 to 7.
- 27 The Minority dissents from recommendations 8 and 9 and makes the further recommendations.

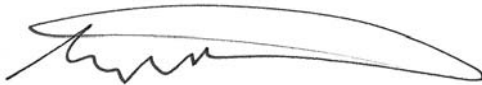
Minority Recommendation 1: That the State Government continues to provide additional capital funding until the current study is completed and the effects of State Agreement Acts on local government authorities' finances are quantified.

Minority Recommendation 2: That the State Government requests the Commonwealth Government to review the National Principles to ensure funding is on a needs basis, reflects the true costs for local government and ensures that no local government authority is unduly penalised.

Minority Recommendation 3: That the State Government continue its enquiry into the details of voluntary payments and contributions made by the selected companies to local government, community programs and community infrastructure.

Minority Recommendation 4: That the State Government negotiate with the other parties to State Agreement Acts to seek contributions to the local communities in which they operate. This could include paying rates on Gross Rental Value if it is established that it will improve the financial circumstances of the local government authority.

Minority Recommendation 5: That the Public Administration and Finance Committee should review this matter in twelve months to see if the current State Government study has adequately addressed the issues raised by the local government authorities and if any further inquiry is required.



Hon Ed Dermer MLC
November 19 2004



Hon Ken Travers MLC
November 19 2004



Hon Sue Ellery MLC
November 19 2004