

## 10 Local Government

The brief of this book is essentially to examine the role and functions of the State government. That would, however, be incomplete without at least a summary examination of Local government, and for a number of reasons. Local government is, in some important ways, a proxy for the State government in the performance of some functions. If we are looking at the public sector as a whole, we cannot omit what is, after all, quite a large chunk of public sector employment and finance. And Local government has the potential to influence economic activity and efficiency, for good or bad, in more than marginal ways.

Local government *is* large: nationally, Local government outlays account for 2.3 per cent of GDP;<sup>152</sup> at the State level it accounts for 1.6 per cent of GSP (1990–91 data). In 1991 in Western Australia its current and capital outlays accounted for about \$581 million; it raised \$455.9 million from its own various sources, and received \$169.8 million in grants from Federal and State governments. Ten years ago (1980–81), outlays were \$191.8 million, own-source revenue \$141.8 million, and grants \$69.7 million. That represents a real growth per annum of 4.5 per cent in outlays and 4.4 per cent in revenue (or real growth per capita of 1 per cent and 0.9 per cent respectively).

Aside from the *level* of revenues, there are problems with the *nature* of the Local government revenue base. Local government has a legitimate claim to some grants from State and Federal government: it performs roles delegated from above, and its very local nature requires a reasonable measure of fiscal equalisation. Nevertheless, such grants (as with Federal to State grants) always involve considerations of responsibility and accountability, never satisfactorily examined.

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152 By way of comparison, the Commonwealth government spends about 2 to 2.1 per cent of GDP on defence.

Local government's tax base is essentially a wealth tax, levied on the rental value of property. This has the advantages of simplicity and a fairly high degree of transparency. It also has disadvantages. There is not much of a correspondence between the level of a household's tax and its consumption of locally-provided services. There is often a similar mismatch between the level of tax and ability to pay; something which particularly affects retired people. The tax base tends to increase in times of asset appreciation, but does not noticeably decrease after the booms have collapsed: there is a marked 'ratchet' effect, reinforced by the ability to manipulate both base and rate. This shows up to a certain extent in the data on Local government borrowings: in the ten years looked at above, net borrowings actually decreased in real terms per capita, by 1.9 per cent, and that despite a real decrease per capita in grants from other sources of 1.04 per cent. While the principle of Local government borrowing is very much open to question, the level of borrowings *overall* is not a pressing concern, although it may well be so within individual authorities.

There are other problems.

Perhaps the principal *raison d'être* of Local government is the provision of services to households. Yet it is virtually certain—if we can transpose to Western Australia the results of studies undertaken elsewhere—that these services are provided much less efficiently than they could be. Recent studies<sup>153</sup> suggest savings of around 17 per cent in rubbish collection, 17 per cent in road maintenance, 35 per cent in general maintenance works and 24 per cent in capital works—considerable savings, indeed, and mostly attributable to labour productivity gains. (To some degree, similar savings would be achieved under the industrial relations policies advocated elsewhere in this book.)

Most of those who serve in Local government are honest people with a proper concern for serving their community; nevertheless, Local government is afflicted with an indeterminable degree of low-grade corruption. This only rarely emerges into the public arena, and is usually a function of the discretion allowed to Local government in planning matters. A number of councils have been subject to ministerial intervention or investigation in recent years. More generally,

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153 Summarised conveniently in 'Competitive Tendering', *Business Council Bulletin*, February 1989, pages 10–14, and G. Webb, 'The economics of contracting out', National Bank of Australia, *Quarterly Summary*, 1992, pages 21–22.

many councils seem often to be locked in perpetual battle with ratepayers, especially over planning and spending.

More seriously, not least because the elected representatives are part-time and completely deprived of the necessary resources of information and analysis, much of the agenda of Local government tends to be driven by its bureaucracy. The democratic credentials of Local government are indeed a problem. Voter turn-out is usually low—often between 5 and 25 per cent, and recently averaging about 11 per cent, with many elections uncontested. This might be taken to represent unusually high voter satisfaction with outcomes; it might equally be taken for total apathy, or a perceived inability to change anything much by the exercise of a vote. It is, however, more likely that the problem is one of *rational* ignorance. Information costs—in time or other resources—are very high. Whereas the cost to the individual of basic information about Federal government is very low (as little as the price of a good daily newspaper and the time taken to read it), and the cost of similar information about State government only a little higher, the getting of information about the activities of one's local municipality comes fairly dear: although local newspapers now provide a degree of coverage once almost entirely absent, they tend to cover obvious controversies rather than routine financial matters, and the cost of attending council and committee meetings, even of obtaining minutes, agendas and budget papers, is very high indeed.

Underlying this is a usually unspoken and unexamined uncertainty about the precise status of Local government.

It is in fact very difficult to define Local government in such a way as to make it more than a mere provider of services. We rely on it to collect our rubbish, to maintain footpaths and parks and playing fields and some roads—the sorts of things we might think of as essential or 'core' services. We recognise that it undertakes other (largely delegated or jointly-funded) functions in health, pollution, libraries, planning and building. Many now build and maintain things like community centres, reflecting a decline in provision by other more traditional social providers such as churches. Some of the larger authorities have moved into explicit welfare functions, though without much community consensus or consideration of overlap with other levels of government.

There is probably nothing in all of this that could not be provided in some acceptable alternative way. There is almost certainly no task which could be described as a 'sovereign task': that is, a task which in

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the end requires the authority which can be delegated only to government.<sup>154</sup> There is a further difficulty in that Local government (for obvious reasons) does not have an adequate apparatus for coping with the demands we usually place on democratic institutions: no organised oppositions, no upper houses, no proper question time, no basic means of ensuring checks and balances and proper attention to the rule of law.

This difficulty in assigning a distinctive role to local government is common among recent studies. The Curran Commission in Tasmania, for instance, remarked that it was '...essentially a derivative of the State Government', and this is a fairly typical judgement.<sup>155</sup>

All this is a pity. Those with a strong attachment to authentic forms of democracy should have high hopes of Local government. It is very close to those it represents; it should provide a model for effective representative action, accountability and responsiveness to be copied by other levels of government. Perhaps in some areas—country areas in particular—it does; on the whole, in suburban and urban Western Australia, it seems not to.

A measure of this is the interest shown by various governments in recent years in reforming Local Government legislation. The most recent review, in 1989–1990, produced a new draft Bill which has not been made public, although the discussion papers published in 1990 make the content of the draft fairly clear. We suggest that a new government continue to develop a new Local Government Act more satisfactory than the present one, while not necessarily following the lines of the last review. (One of the implicit aims of that review was to permit a degree of 'entrepreneurial' ability to councils; after WA Inc, that now seems less than desirable.)

Within the limits of this brief overview we can suggest only the broad considerations which should determine the legislative design.

Unlike the old Act, the new one should concentrate more on outcomes than processes.

As the last review suggested, there should be an explicit charter of services for Local government. The charter should distinguish between essential or core services, and non-essential services. That, however, is inadequate unless the Act also specifies that services

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154 See James Q. Wilson, *Bureaucracy*, Basic Books, New York, 1989, pages 348 and 359.

155 See Charles Curran (chairman), Independent Commission to Review Tasmania's Public Sector Finances, *Tasmania in the Nineties*, Hobart, April 1992, page 49.

should be provided in the most efficient manner possible. Efficiency should also be one of the two principal criteria in determining the allocations to local authorities through the State Grants Commission (the other, of course, being an explicit equalisation component). In time, the Commission should develop a standardised cost measure for each core service (weighted as appropriate for circumstances such as area, distance and other special disadvantage). Standardised cost criteria should apply not only to general purpose grants but to specific purpose grants (most notably roads) as well. Routine grants, whether specific or general, should cover only specified core services; grants for other purposes should be made by explicit appropriation in the State Budget. Grants Commission assessments will therefore themselves provide a discipline; that can be reinforced by the scrutiny of the Auditor-General.

Transparency and competitive neutrality require that services specifically delegated by the State government to Local government should be identified and subsidised;<sup>156</sup> all State government instrumentalities (including, for instance, Homeswest) should pay all ordinary council rates and charges.

The new Act should also be more specific about the revenues of local authorities. Borrowings should be permitted only for items capable of producing a commercial rate of return; and only after a (compulsory) loan referendum among ratepayers (with only one proposal per question). To assist transparency (and lower information costs) authorities must be obliged to clarify in their rates notices the costs respectively of core and non-core services, including administrative overheads. The Act should also make clear that local authorities may charge any user, ratepayer or not, for any service, core or not. Although the property tax does have its problems, there is probably now no satisfactory alternative overall revenue base left to Local government, apart from a poll tax, which has its own problems. (A combination of the two is possible, with, effectively, a minimum tax per property, topped up with the wealth tax. That, in turn, has its own disadvantages, not least the divorcing of tax from cost of service.) Authorities seeking to increase the rate per dollar by more than the CPI should again, however, be obliged to put the increase to their ratepayers. Referendums in both cases should require a clear man-

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156 Better still, in a more ideal world, to delegate the taxing power with the function.

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date: a majority of voters must vote, and at least half of those voting should approve.

This programme of basic reform will induce two major changes in the way Local government operates.

First, the tendency toward contracting-out for services, already well-established, will increase. Inevitably, private service contractors will perform much of the work presently done by council staffs. It is not inevitable that they will perform *all* of the work: the example of Mosman Municipal Council in New South Wales, where staff teams offer fully-costed tenders for council work, is one which offers a number of advantages.<sup>157</sup> Contracting out can extend beyond unskilled and semi-skilled labour to include professional services such as building inspection, engineering, and data management, to name just a few. We would also expect councils to develop further the already existing trend toward sharing resources. Considerable savings will accrue to councils, which may pass them on to ratepayers or use them to provide other services.

Secondly, there will be a better balance between autonomy and accountability than now exists. No effective constraint will have been placed on any council which cannot be loosened by democratic reference to the ratepayers or voters. Voters, on the other hand, will have better information by which they will be able to judge the true cost of local government, and the cost of any additional service.

The provision of what we have called 'core services', and similar services, is only, as was pointed out earlier, a part of the activities of Local government. A sizeable portion of senior staff resources is consumed in what is most usefully thought of as being regulatory activity: town planning functions, building approvals, health and pollution monitoring, and so on.

In most cases, the ultimate authority rests with the State Government. And in most cases the area is one ripe for reform. Regrettably, they tend to be difficult areas and outside the scope of this book. Broadly speaking, public health, pollution and planning are major disaster areas.

Planning is particularly important because of the tendency to corruption (broadly defined) inherent in the ability of councils (and ministers) arbitrarily to exercise discretion. Any reform must severely limit, or perhaps eliminate, that discretion. That means having more

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157 See Mosman Municipal Council (NSW), *Report on Competitive Tendering*, 1991.

rigid regulation; it also means having considerably fewer regulations. Any reformed system must also concentrate on a better balance of the property rights of the various parties concerned. In many cases, explicitly tradeable rights will eliminate the need for other forms of regulation.

There are other issues which would have to be taken into account in a full new Local Government Act; one is worth mentioning here.

The competitive provision of efficient services will be enhanced if the Act made provision for greater fluidity of council boundaries. Ratepayers, quite simply, should have greater choice in the matter of which council they wish to serve them. If council X provides services better or more cheaply or of a different mix relative to the adjoining council Y, then it should be open to council Y to expand to take in willing ratepayers who wish to leave council X. At the moment, 'exit', the ability to leave a jurisdiction (to 'vote with one's feet') is theoretically available to any ratepayers dissatisfied with their local authority; the practical difficulties (not least the transaction costs) render it a sterile option for virtually all dissatisfied ratepayers. What we are proposing is a form of assisted exit.

(The same fluidity should apply to other situations: as, for instance, in settling whether ratepayers in suburban wards of urban councils should be allowed to split off; or in general in arriving at more rational boundaries for any municipality.)