



Your Ref:

Our Ref: MF:CA – F22/20

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9 August 2002

The Secretary
Standing Committee on Economics, Finance
and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Sir

Inquiry into Local Government and Cost Shifting

Kiama Council welcomes the inquiry into local government and cost shifting. The holding of the inquiry by the Federal Government is a positive step in focusing on increasing demands on local government without adequate resourcing by state and federal governments.

Council wishes to make the following points as a submission to the inquiry.

- 1) The imposed financial structure within which Council must prepare and operate its many functions continues to cause increasing concern. Traditional resources of revenue are restricted or declining. They do not maintain an appropriate link to the cost increases which Council has to face each year and if Council was reliant on these traditional sources as its only form of income, it would be in dire financial straits.

Ratepegging legislation was introduced in 1978 by the New South Wales Government and has resulted in substantial impact on rates revenue. When compared to the annual Sydney Consumer Price Index (CPI), the percentage allowed for rate increases has generally been lower. This effectively means the increase in the costs of Council operation (of which the CPI is a rough measure) has been greater than increase in revenues from rates. While this might not be great in any one year, the cumulative impact is substantial.

For the period 2002/2003 the rate increase of 3.3% allowed under the ratepegging legislation did not meet the increased costs of insurance and superannuation aside from the normal costs incurred by other Council activities.

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A similar situation exists in relation to the grants from income tax receipts made to local government by the Commonwealth. This grant is the largest untied source of government assistance given to Councils. It is calculated on a formula which is designed (in part) to provide equalisation of costs across all Councils on various functions and because Kiama Council has efficiently provided those functions, the formula has tended to penalise it. Consequently, Council calculations show that if the FAG grants had been maintained in line with annual CPI increases between 1986/87 and 2001/2002, an additional \$3.7 million would have been made available to Council over that time. (See Attachment.)

Earlier in 2001 Council hosted a visit by the NSW Grants Commission which reviewed the grants received by Council and the application of the Commission's equalisation formula. That visit indicated that Council received an increase the previous year which was commensurate with the average increase to similar Councils. However there was an indication that the Commission members believed that there were substantial needs being put forward by this Council (and other Councils) which cannot be accommodated by the current level of Commonwealth funding.

Clearly the value of the FAG grants have been severely eroded over the years.

The impact of the reduction in real terms of funds from Federal Assistance Grants and funds collected under ratepegging legislation on the Kiama Council and the community over a 15 year period has equated to a loss of funds in real terms of approximately \$6 million.

- 2) On top of the reduced funds made available by federal and state governments there has been shifting of responsibility to local government. Examples of reduced funding to local governments to carry out important functions includes the shifting of costs to Council for the carrying out of library services whereby Council now meets 90% of the cost of such services. The New South Wales Government initially met the cost of library services on a dollar for dollar basis. Another example is the recent introduction of draft legislation whereby Councils will be required to obtain and register bushfire hazard reduction certificates without fee. There are many other examples where there has been such a shifting of costs to Council.
- 3) There has also been the plethora of legislation introduced in the last 10-15 years which has placed a significant administrative burden on Council without adequate levels of funding. Often the legislation shifts responsibility for administration and regulation from state government to local government without appropriate levels of financial support.
- 4) Direct funding from federal government to local government is attractive as this avoids syphoning by the states and enables Council to expend the funds having regard to the priorities set by local communities. The Roads to Recovery Program is an example of how this has been successfully achieved. However, it is important that federal funding is committed to enable long term planning by Councils. The recent re-phasing of Roads to Recovery funds by the federal government has undermined confidence in councils being able to rely on such funding arrangements and to carry out long term planning that councils need to undertake to allocate funds to priority works.

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It is not appropriate for some functions such as education, health and policing to be taken over by local government and directly funded. Local government does not have the infrastructure and resources to carry out such functions and it is also important that funding be directed to address areas of most need. There is also recognition for the need for the retention of common standards of provision across large areas.

Thank you for the opportunity of making this submission.

Yours faithfully



Michael Forsyth
General Manager

Attach.

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