COST SHIFTING ENQUIRY

DISCUSSION PAPER
FEDERAL/STATE FUNDING
TO
LOCAL GOVERNMENT

PRESENTED BY:
CITY OF STONNINGTON

CONTENTS

INTRODUCTION

It is our submission that there is an increasing gap between Local Government income and expenditure and that this is a fundamental problem that must be addressed. The focus of this submission is the Victoria experience with some specific references to our experiences at the City of Stonnington.

Local Government income and expenditure has over the past 10 years been tightly constrained by a combination of:

- growing dependence on our own sources of revenue (chiefly rates) as Federal and State grants have declined (see figures 1 and 2);

- political pressure to limit rate increases and retire debt; and

- rate capping and rate reduction as part of the amalgamation process and Local Government reform agenda.

In the absence of a growth in funding, there is some community acknowledgment of the necessity to pay higher rates to achieve specific improvements in service delivery, particularly for environmental projects, human services and infrastructure renewal. The financial capacity of many communities to be able to do this is however limited particularly in rural areas and the ageing middle/outer suburbs of Melbourne. Higher expectations are often at odds with capacity to pay for services and the demand for infrastructure investment.

It is likely that our ageing population will change to having increasing demands on Councils for additional aged and disability services and housing. We need to start planning now for this change in service demand and make an assessment of its resource implications to enable time to adjust for appropriate Federal and State funding and support, and manage community expectations.

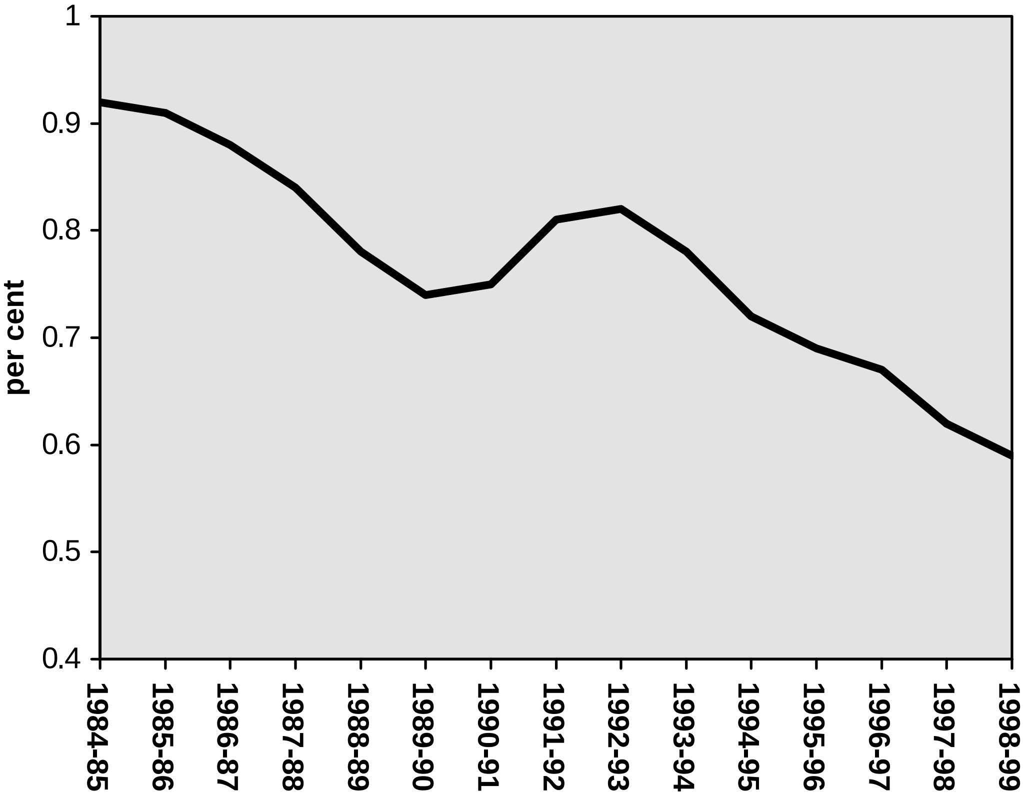
There has been a steady decline in general purpose financial assistance grants to Local Government, relative to total Commonwealth tax revenues. Adjustment to improve Federal and State budgeting has been taking place potentially without regard to the funding needs of Local Government. The Commonwealth through reducing funding appears to want to divorce itself from its responsibility to Local Government services. In so doing it is ignoring a mechanism for correcting the declining national standards for local communities. There appears to have been no attempt to justify the transfer of responsibility for Local Government financial assistance to the States in terms of national benefit. In the case of Stonnington we estimate our grant revenue has reduced in real terms by 11% which has had to be made up through other sources. (see attachment1.14)

Local Government needs to protect itself from cost shifting/shedding and unfunded good ideas by both Commonwealth and State Government. Reduction in child care funding, cigarette regulation, self regulation of food handling, drug strategies, safer communities strategies, housing, employment schemes etc. all exist as examples of Commonwealth or State transference to Local Government. This transference is not inappropriate. Local Government can deliver, and deliver very effectively, at the local community level on many key issues like drugs, employment and economic development. They need funding however and they need supporting action and strategy at both a State and Federal level.

If State and Commonwealth Governments want to continue to uncomplicate their roles and reduce their budgets by transferring social/community problems in housing, child care, drugs, health care, disability etc. to Councils we need to change funding and relationships.

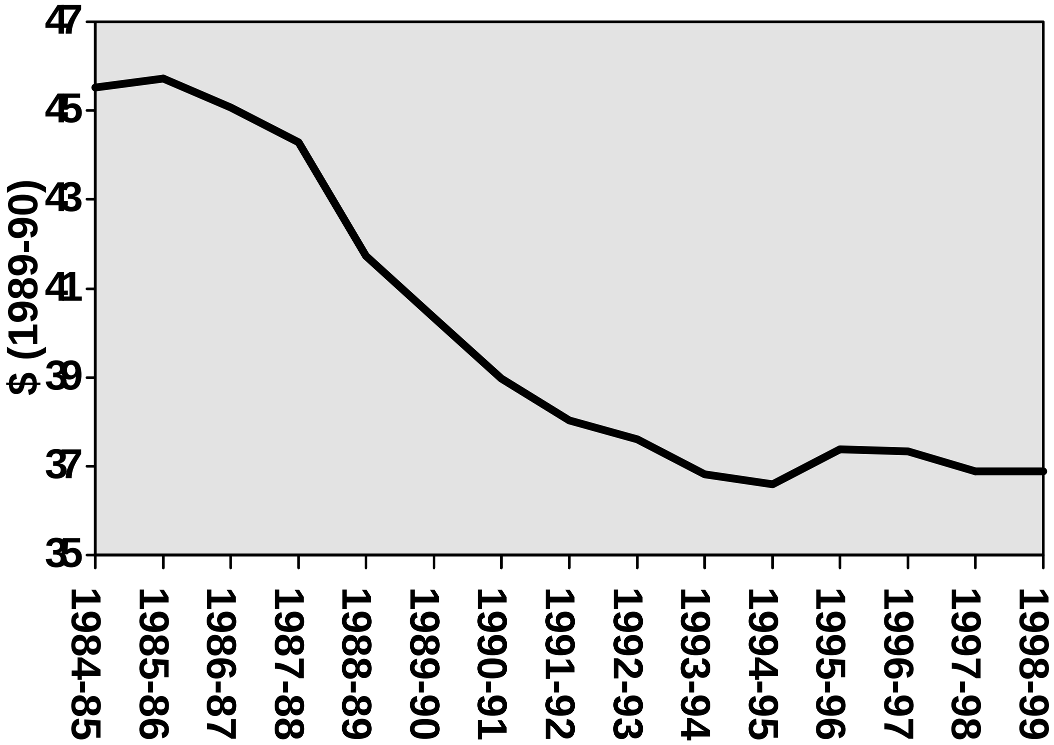
Using the Stonnington experience as an example we assess our Public Health expenditure has increased in real terms relative to revenue by 3% or $39,417 over the past 5 years.(see attachment 1.3) A similar but greater trend has been measured in Community Services where expenditure in real terms has increased relative to revenue by $525,226 or 39%.(see attachment 1.6). These are serious trends which appear to be ongoing and highlight our fundamental concern which we extrapolate across Local Government of an increasing gap between revenue and expenditure.

Figure 1: Local Government general-purpose financial assistance—falling as a share of Commonwealth taxation revenues



Source: ALGA calculations from Commonwealth Budget Papers data.

Figure 2: Real Local Government financial assistance: to be 'guaranteed' at an historically low level per person



Source: ALGA calculations from Commonwealth Budget Papers and ABS data.

BACKGROUND

The Need for Financial Assistance

Many Councils have a high degree of self sufficiency from their own sources of income. Individual Councils' abilities to fund an appropriate standard of services to their local communities however varies significantly. The need for services and occurrence of many related social problems do not recognise these differences. In fact it will be often the areas with the least capacity which have the highest demand.

Recognition of the varying capacities of Councils to fund local services and the importance of those services to the well being of communities led the Whitlam Government in 1974 to commence financial assistance to Local Government. This took the form of grants paid to Local Government as a specific purpose payment through the States on the condition that it was distributed untied on the basis of horizontal equalisation - compensating Councils for their differing costs of service provision and capacities to raise revenue.

By the late 1970's, Local Government nationally was receiving 2% of personal income tax as general purpose financial assistance under the tax sharing arrangements of the Fraser Government. These were subsequently discontinued by the Hawke Government in 1983-84 and have since continued to reduce every year.

In the 1997-98 budget, the Commonwealth delivered more than $1.2 billion to Local Government as general purpose financial assistance and identified road funding. This untied assistance represented at least 80% of the total grants to Local Government from other spheres of government. The bulk of the remainder was special purpose payments direct from the Commonwealth, State payments to Local Government being mostly restricted to reimbursement of concessions to pensioners and other beneficiaries granted on their behalf.

Around two thirds of Commonwealth financial assistance to Local Government goes to non metropolitan Councils with nearly half delivered to Councils in rural and remote parts of the country.

(Reference: ALGA Submission January 1999, New Tax System.)

Adequacy of Financial Assistance

Despite the intent of financial assistance, it is inadequate to achieve equalisation of Local Government services between Councils in vastly differing circumstances within the metropolitan region let alone urban rural areas.

The identified road funding component leaves an estimated shortfall of $1 billion each year in Local Government's capacity to maintain its share of the nation's road network.

The situation has been exacerbated by the erosion of Local Government financial assistance, an inevitable consequence of the vertical fiscal imbalance created by taxation and without a fixed suitable benchmark. Since 1983-84, and the ending of the tax sharing arrangement, financial assistance to Local Government has fallen from over 0.9% of total Commonwealth tax collections to around 0.6%, from 2% of personal income tax collections to just 1.1% in 15 years.

Despite a guarantee over recent years to maintain the value of financial assistance per person to Local Government, this assistance has fallen by nearly 20% or a fifth of its value over fifteen years. Local Government has assumed many new roles and responsibilities which were Federal and State responsibilities, and likely to face many more in the near future.

(Reference: ALGA Submission January 1999.)

Commonwealth Funding of Local Government

There has been a 4% ($61M) decrease in total funding to Victorian Local Government from the Commonwealth from 1994 to 1999. The per capita decrease was 8% reducing from $87 to $80 per capita for the same period.

This funding includes Commonwealth general revenue funding and local roads funding which is paid to the State Government for on passing to Councils. The Commonwealth also provides direct funding to Local Government for current and capital purposes. This combined funding is included in the above figures.

The rate reduction in specific payments which includes funding for Aged and Disability services has reduced dramatically. The reduction from 1994 to 1999 is 21% . Reductions for other states have also been dramatic with 40% for NSW and 55% for Queensland. Victoria's per capita payments are $86 in comparison with NSW $76 and Queensland $18. These differences particularly with Queensland represent different systems where State and private not for profit organisations provide aged and disability services.

(Reference: MAV Report - Trevor Koops September 1999.)

State Government Funding to Local Government

Specific purpose payments from the State Government have been traditionally high in Victoria relative to other states. They have however been reducing and over the period 1994 - 1998 have reduced by 6% or $32M, being $458M in 1997/98.

The impact of reducing payments primarily occurred in 1997/98 when payments reduced from $608M in 1996/97 to $458M in 1997/98. Current payments represent $98 per capita. Per capita payments have reduced by 10% over the period 1994 - 1998.

Total Funding Commonwealth/State to Local Government

Total combined funding has reduced over the period 1994 to 1998 by 5.6% or $49M. NSW has experienced a similar decline. WA and Qld have experienced significant increases in comparison of 14% and 18% respectively.
The per capita change for Victoria has been a reduction of 9% over the period 1994 - 1998.

(Reference: MAV Report - Trevor Koops September 1999.)

Stonnington's more recent experience of this total funding decline is a reduction of 11% in real terms between 1997 and 2002. This is a reduction of $576,447.(see attachment 1.14 grants)

Commonwealth Funding to the State Government

Commonwealth funding to the State Government, over the period 1994 - 1999 has remained constant. On a per capita basis however funding has reduced by 5%.

Over the period where the State Government has reduced funding to Council by 5% and per capita by 10% their funding from the Commonwealth has remained the same in terms of payments but has reduced on a per capital basis by 4.7%.

(Reference: MAV Report - Trevor Koops September 1999.)

Local Government Expenditure

Local Government expenditure in Victoria over the period 1992/93 to 1997/98 has reduced by 9% ($267M) and 12% per capita.

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1992/99
$ 1999 per Capita							
Current Expenditure	557.0	533.9	532.4	537.4	522.2	508.4	9% ↓
Capital Expenditure	116.5	118.2	114.8	(54.7)	79.5	84.9	27% ↓
Total Expenditure	673.5	652.1	647.2	482.7	601.8	593.3	12% ↓
Revenue	687.2	682.9	657.3	590.1	577.2	595.2	14% ↓

The reduction in Local Government expenditure by 12% per capita has been funded by a 10% per capita current expenditure reduction and the balance of 2% per capita has been achieved through a capital expenditure reduction.

The significant drop in capital expenditure is an obvious concern longer term for the maintenance of Local Government infrastructure. The reduction in current/operating expenditure is a concern in the ability to deliver services and to deliver the new services the Commonwealth and State have as an expectation of us and which we will need to deliver as our population ages.

(Reference: MAV Report - Trevor Koops September 1999.)

Rates

Victorian Council rates have gone from the highest to the lowest, per capita of all states from 1992/93 to 1997/98, a reduction of 23%.

State	NSW	Vic	Qld	SA	WA	TAS
1997/98 Rates/Capita	333	273	308	311	332	311

Our relatively low rates and implied greater efficiency could be used as an argument for additional funding relative to other states still to go through a reform program.

With a reduction in rates Councils have had to find other sources of revenue and opportunities for expenditure reduction. Rates have fallen over the period from 64% to 54% of total expenditure.

This reduction is attributable to the 20% reduction in rate revenue and rate capping and the consequent increase in the importance of other revenue in the form of grants, fees and charges, fines, contributions etc.

Recent trends in Victoria of Councils significantly increasing rates in 2002/2003 would suggest that lower rates have been achieved at the cost of deferred capital expenditure. Some Councils are currently justifying significant rate increases to cover the capital cost of maintaining their assets.

There are significant differences between Councils in the reliance on rates and the reliance on grants for revenue. This can be either a strength or a weakness depending on the size and nature of the rate base.

Revenue Reliance on Rates

No. of Councils	1	30	26	21
% Reliance on Rates	< 30%	30-40%	40-50%	50% +

Revenue Reliance on Grants 1997/98

No. of Councils	5	18	34	14	6	1
% Reliance on Grants	< 10%	10-20%	20-30%	30-40%	40-50%	50% +

Stonnington Revenue Breakdown 1998/99 and 2001/2002

	Rates	**Grants**	**Traffic/Parking**	**Other**
1998/99	55%	8%	20%	17%
2001/02	57%	7.5%	18%	17.5%

(Reference: MAV Report - Trevor Koops September 1999.)

Debt

Debt has reduced substantially by over half from 1993 - 1999 from a per capita rate of $231 to $108 in 1999. This was despite the unfunded superannuation liability of $348M added to Local Government in 1996/97.

The ability to retire debt comes from the drop in interest rates (22%), the sale of MEU's for 10 Councils and reduced expenditure.

Reduced debt in theory means an increased capacity to borrow to deliver services and infrastructure. However the reduced debt is not equally distributed. Those with the greatest debt can be generally assumed to be those with the greatest difficulty to service their communities and break out of the burden of loan repayments.

(Reference: MAV Report - Trevor Koops September 1999.)

Capital Expenditure/Infrastructure Investment

Victoria wide Capital expenditure has reduced significantly 1993 - 1998 from $502M in 1993 to $407M in 1998.

Capital Expenditure. Victoria. 1999 $M

1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
502	527	503	333	402	407

(Reference: MAV Report - Trevor Koops September 1999.)

The more recent figures show an upward trend from the dramatic amalgamation/reform period of 1995/96 however they represent a serious concern for the renewal and replacement of infrastructure. Studies by the Office of Local Government, whilst not based on completely reliable data, do indicate a major deficiency in infrastructure investment. A failure to maintain infrastructure will lead to far greater future costs. An inability to add to and improve existing infrastructure will stagnate existing communities.

The estimate of the Office of Local Government in 1996 - 97 was that 50% of Councils were spending only 50% of what was required to maintain their infrastructure.

Stonnington ability to maintain its assets and renew its assets is being dramatically affected by cost shifting. In 1997 the available funds for capital renewal was $22M, the 2003 available is $18m. The reduction in the level of funds available of $4M can be directly related to the estimate costs shift of $4.4M. (refer attachment 1.13)

Financial Viability

Financial modelling by the MAV on the future viability of Victorian Councils raises major concerns mainly driven by the need for further infrastructure investment.

They conclude that 46% of Councils will need to increase their revenue between 0 and 20% to meet their service debt and infrastructure demands. This would take back the 20% rate cut taken by many Councils. However what is obviously even more serious is a funding gap from 30% to over 60% being faced by 50% of Victorian Councils.

Funding to Local Government in Victoria compares favourably to other states. We appear to have maintained or increased services despite reducing funding from the State and Commonwealth.

The current situation is however very difficult for some Councils with a high reliance on grants, significant debts and a need to increase infrastructure investment.

Given increasing pressure to transfer services and respond to community needs the ability of Local Government to be effective given current funding is a significant concern.

New Service Needs and Costs

Discussion to date has tended to focus on historically reducing funding to Local Government and its consequences to maintaining current community service levels. Related to this is a concern that capital budgets used to maintain assets and particularly infrastructure will be reduced further and consequently incur even greater costs when maintenance turns into replacement. Dramatic infrastructure collapses in the UK and US are often cited as examples in this context.

The modelling by the MAV referred to earlier shows that even maintaining current service levels is not possible without a substantial increase in income.

Given a need to increase income to just maintain status quo how will we meet new service needs and costs and what are they likely to be?

Ageing Population

Currently our largest population group is 25 to 35, those born in the late 60's and early 70's. Over the next 25 years the largest change will be the movement of this group into late middle age of 50-70 years.

We will have plenty of practice for this group as the earlier baby boomers of the late 40's / early 50's move into late middle age and more particularly into frail age of 75 plus.

Different municipalities will be challenged by this shift in different ways. In Stonnington the impact overall will not be particularly dramatic in the short term.

Stage of "Family Life Cycle" Stonnington LGA

	1991	1996	2001	2006
Young	29.1%	28.9%	26.5%	24.9%
Middle	21.7%	21.4%	22.8%	23.2%
Mature	17.1%	17.3%	16.6%	16.8%
Late	32.1%	32.4%	34.1%	35.1%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**

These averages hide significant local variations in some areas of our city where the late age group will increase over 40%.

Over the next 25 years Melbourne's population will change significantly with the greatest increase being in the age groups of 50-65 (300,000 more people) and 75 plus (95,000 more people).

Based on current trends we will not only have more older people they will be living longer and they will have much higher expectations of the services they need.

As a group they will generally have relatively high levels of wealth, although this will vary between areas. A capacity to pay does not change the need to provide the service, we will still have to provide the required service level although some of the cost can be recouped through fees and charges.

Needs of the Aged

We can assume these to be fairly similar to existing services. The main issue will be the major increase in the number of people requiring services, the source of funding and managing service expectations.

Housing - Housing will be a key service demand and will impact on all levels of government. Our involvement could be a role in actual provision / partial financial support. We will be involved at the least in managing the planning and development processes and associated concerns within local communities who will have to accept significant physical change.

Various types of new supported housing will also no doubt emerge with a variety of funding options, catering for various groups.

Home Care - This is generally provided by us to people in their own homes. This will change in volume and expectation in the future. It could also change to include services to people in various types of supported care. New housing providing 55 plus accommodation may bring with it concentrations of special service demand not yet experienced.

Para Medical Care - Personal care to people at home is to a varying extent a form of medical care. What in the past could be called convalescence is now taking place at home with Council and other agency support services. The future emergency practices of hospitals such as hospital in the home and general operation of the health care system will significantly impact on the services we need to provide.

Special Services - As people age needs for home maintenance, transport, education, entertainment, activities and disability access arise and Councils traditionally service these with special programs. What is the broader community responsibility in an ageing society to address these needs? Is it a public transport responsibility to change to meet disability and frail elderly transport needs or is it Council? The same query needs to apply to the other special needs of older people. Does Council fill the gap and/or should the gap close by the primary agency responsible for that service?

Current and Emerging Issues

The number of youth and young adults will not be increasing in the future but remains high. Issues emerging from these groups will remain similar.

Child Care: Increasing expectations, workforce participation and immigration will continue the importance of these services.

Drugs: A significant issue where Councils can make a major contribution and a difference but as with many services it needs to be part of a vertical government package. Councils initiatives need to be supported at a State and Federal level.

Education: Our role in pre schools, after school care, holiday programs needs to be developed in the context of the cost of education. The services we provide are arguably an integral part of the education process but are not all funded as such.

Housing: Emergency housing for youth, families in crisis, homeless etc. continue particularly in inner areas. These are part of State housing responsibility but cannot and are not ignored at Council level. Our capacity to fund this very expensive area is limited and this is likely to be an area of increasing demand.

Health Care, De-institutionalisation, Family Breakdown, Youth Suicide: These are all major issues for our communities but what is our role? Should we be implementing a solution proposed by others or advocating a solution to be implemented by them?

De- institutionalisation is a relatively recent change – what are the long term impacts of this? The current impacts are a demand for home visiting, support and respite care.

Building Control, Swimming Pools, Food Act, Cigarette Sales: The State Government continues to use Local Government to implement their good ideas often at our cost. A continuation of this trend can be expected and will continue to be a draw on Council revenue. In many areas Council acts as a filler of gaps to State and Commonwealth services. This function is an expectation of these other levels of government as well as an expectation of our communities. This expectation can only be met if they are tied to additional funding. Local issues of State and Commonwealth significance need to be funded at the State and Commonwealth level.

Stonnington's experience of our changing service needs and costs are set out in the attached tables 1.1-1.13. These attachments show how our relative service costs have increased after taking account of inflation, population and housing increases and policy decisions we have made to increase service levels. From this exercise we have attempted to isolate or estimate the potential impact of cost shifting on our budget.

In summary the key changes we can identify include the following;

Building Services a net expenditure **increase** of $68,269 or **25%** (attachment 1.1)

Planning a net expenditure **increase** of $660,365 or **42%** (attachment 1.2)

Public Health a net expenditure **increase** of $39,417 or **3%** (attachment 1.3)

Waste Management a net expenditure **increase** of $147,248 or **7%** (attachment 1.4)
Community Services a net expenditure **increase** of $525,226 or **39%**(attachment 1.6)

Valuations a net expenditure **increase of $186,636** or **85%** (attachement 1.10).

The overall net impact of all these changes we estimate amounts to a cost shift of **$4.4m** or 28% between 1997 and 2002. (see attachment 1.13)

FUTURE OPTIONS FOR ALTERNATIVE FUNDING ARRANGEMENTS

There are a broad number of options to increase Local Government revenue to meet the current and future expenditure demands which have been detailed earlier in this paper.

Our communities have a range of service needs that are collectively provided by Federal, State and Local Governments. There are consequently expenditure demands and revenue demands to be distributed between the three levels of government. The bottom line is the packaged level of services which is provided to our communities. The revenue and expenditure consequences of any increase or decrease in this service level should be distributed equitably between the three levels of government.

In the same way that there must be a Federal/State financial relationship to ensure the equitable distribution of revenue and expenditure directed towards achieving State and National objectives there must be a Federal/State/Local Government financial relationship.

Without this relationship the opportunities for improved co-ordination and more accurate service delivery is reduced.

All Councils have the opportunity of increasing rates and charges. Rates is a property tax which can increase total revenue available for community services. What needs to be questioned is how appropriate is this relative to other forms of tax and revenue on our communities such as income tax, GST, excise etc. Given additional expenditure demands on Local Government what is their appropriate source?

The Department of Infrastructure, Local Government Division, advised all Councils in April 2000 that Councils could increase rates to address "backlog" maintenance on infrastructure assets.

The Department recognised infrastructure maintenance as a major issue and stated the Bracks Government was committed to assist Local Government improve its future funding arrangements and asset management capacity.

The resulting rating framework for 2000/01 was that rates should not increase above the underlying rate of inflation of 2.5% except for spending on backlog maintenance of infrastructure assets.

The Department's assessment of the Infrastructure Study "Facing the Renewal Challenge" is that across the State an aggregate increase of 1.5% p.a. in rates and charges over the next 8 years will bridge the infrastructure gap. They conclude on an expected rate increase of between 1% to 3% to fund infrastructure maintenance.

The position of the State Government in recognising the shortfall in infrastructure expenditure is very important. It does not appear to recognise the same scale of problem that the MAV study identifies. The MAV as stated earlier in this paper says there is a funding gap of between 30% and 60% faced by 50% of Victorian Councils. The current rating framework does not appear to recognise this scale of gap or the need to fund debt and extend existing Council services. Rate increases in 2002-2003 would however appear to reinforce the MAV estimate of the problem.

To address what we currently see as a vertical fiscal imbalance we need to address the tax/revenue system at the three levels of government so that there is a match between revenue and the roles and responsibilities of each level of Government.

From Local Governments' perspective the key change must be to tie our revenue to sources of revenue which are increasing rather than static. We need our revenue tied to a growth tax. This is the situation enjoyed by Federal and State Governments who with Income and General Taxation, Excise and similar charges have a growing revenue base. From this base they currently return to Councils either the same or reducing funding. This is unacceptable in the context of increasing service demands, infrastructure replacement and renewal and debt servicing costs.
Given the above range of options available for alternative or additional funding to Councils include:

Rates
This has been discussed above and it is largely within Council control to increase rates. However if used it should be packaged as with other options with a media/advocacy strategy. This strategy needs to demonstrate the relationship between increasing service demands and sources of revenue and explain the responsibility of Federal and State. Governments in service provision and consequent cost shifting requiring Councils to fill the gap from rates.. Many Councils particularly in rural areas have limited capacity to increase rates.

Federal Income or Total Tax Revenue
A guaranteed fixed share of Federal income tax revenue or total tax revenue would provide a growth tax opportunity. This has been previously recognised at the Federal level and figures of 1% and 2% pre GST have been suggested.

This revenue should be allocated under the Financial Assistance Grants system on an untied basis.

State GST Revenue
Similar to Federal Tax, an option would be to claim a guaranteed fixed share of GST revenue. This is also a growth tax and appropriate revenue source for Local Government to share.
The ALGA has proposed a 6% share of GST as a funding option directly allocated to Local Government.

Fuel Excise

A guaranteed fixed percentage of fuel excise is another growth tax opportunity. This could be tied to roads but does not have to be.

The ALGA, MAV and Victorian Road Funding Alliance have sought additional road funding using this and other options. These have previously been rejected by the Federal Government.

Road funding is a critical element of most Local Government budgets and can be treated separately. Attaching this funding need to petrol excise is however a good option. Petrol excise has risen from $1.6 billion to $11 billion over the past 6 years and Commonwealth's Road Funding has increased from $1.2 billion to only $1.6 billion in the same period. This example only highlights the growth tax benefits the Federal Government enjoys relative to Local Government.

Federal Budget HACC Funding

The MAV has historically campaigned on HACC funding reform. A key objective of this is to seek a guaranteed fixed share of the national aged care budget for community care *(see attachment 1.6 – the real term effect on Stonnington in HACC funding is a decrease of 7% or $414,220 over 5 years)*

With this and other service demands including mental health and disability needs, Councils are faced with an increasing shortfall in Commonwealth / State funds which we have to meet through our rate base and / or fees and charges.

An increased share of HACC funding to Victoria is also justified to compensate for the comparatively low residential care provision in this state.

There needs to be structural reforms in the HACC program.

There is a commitment to rationalise the fragmented Federally funded community care programs and refocus again on adequate funding to the core services of home care and home nursing.

Fees and Charges

These are an opportunity to increase revenue but as for rates, they don't' represent a growth tax or address the current fiscal vertical imbalance.

Increasing fees and charges agrees with the principle of user pays which may have broad acceptance in some communities where they can afford to pay. Many communities particularly in rural areas and in ageing suburbs lack the capacity for user pays.

Development Contributions

Development contributions can be levied by Councils for a range of purposes. The range of purposes can include open space, car parking, drainage, community facilities provided a suitable nexus can be created between the development and the infrastructure required by Council.

Current practice limits the successful wide application of development contributions to open space or resort and recreation payments under the subdivision of Land Act.

Opportunity exists for a more comprehensive Development Contributions system which the Department of Infrastructure and Local Government are currently working on developing.

This as a source of funding is limited of course to areas where development is occurring. It is not a growth tax and only really assists Councils in reducing the shortfall when upgrading infrastructure and to meet the new demands for a range of services following on from new development.

CONCLUSION

If we want and need to increase services to meet emerging issues, increasing service expectations and our ageing population we need to find additional funding or start managing substantial change in expectations. In this process we need to work with Federal and State Government in defining the future service needs of our communities and in defining the boundaries to our three levels of responsibility with appropriate funding. With most services it is difficult and undesirable to clearly define service responsibility boundaries but they still have to be funded.

The funding options for additional revenue which we need to promote and further develop include:

- increasing rates;
- a guaranteed fixed share of Federal income tax revenue (1-2%);
- a guaranteed fixed share of State GST revenue (6%);
- a guaranteed fixed percentage of fuel excise (roads);
- a guaranteed fixed percentage of Federal Aged Care Budget or other budget components;
- increasing fees and charges;
- development contributions;

These options need to be pursued in the context of a strategy for the delivery of community services and infrastructure maintenance which should include:

- working with the MAV and ALGA to ensure the diverse interests of local government are included;

- encouraging Councils to form regional alliances e.g. Eastern Region Councils of Melbourne, and Inner South East Metropolitan Mayors' Forum; to look at issues of common interest and joint resolution;

- joining with other groups with specific funding objectives of HACC funding and Road funding and promoting reform

- a communication strategy to promote in effect the importance of addressing the current vertical fiscal imbalance to ensure current and future communities enjoy an appropriate standard of services particularly in terms of road infrastructure, health, aged and disability, family and children's services.

The funding to Local Government has from the research of the MAV and ALGA used in this paper been decreasing at least over the past 10 years. There is a resulting increasing gap between income and expenditure which the MAV submission to this enquiry also clearly highlights for Victoria.

The Stonnington experience has been an estimated gap or shift of $4.4m or 28% over the past 5 years. We have been in a position to be able to absorb this at what is so far minimum apparent cost to our community by several key actions;

- A reduction in new capital works.(asset maintenance on existing assets has been maintained whilst doing this)
- Asset sales (this option has limits which we have now reached.)

- Absorbing costs. This has included service reviews as part of CCT and Best Value reviews resulting in greater efficiencies.

- Reduction in services in some non core areas.

Stonnington's future funding needs to increase if we are to undertake any major new capital works, maintain the current trend of increasing service levels and continue to take on the costs shifted to us from Federal and State Government initiatives.

Local Government funding in general needs to increase if we are to maintain current service levels, address current levels of debt and increase infrastructure expenditure to a suitable maintenance level. Failure to do this will result in increased community dissatisfaction with services, increasing debt servicing, and increasing costs to replace failing infrastructure.

Attachment 1.1 – Financial Analysis by service 1997 – 2002 & identified cost shifts:

Service: Building Services	**Revenue**	**Expenditure**	**Net Expenditure**
1997	264,779	265,330	551
2002	995,232	1,101,201	105,969
Inflation Effects	(208,999)	(231,252)	(22,253)
Service level Effect	(149,285)	(165,180)	(15,895)
Adjusted 2002 Level	636,948	704,769	67,820
Net Variance – Estimated Costs Shift	**(372,169)**	**439,439**	**67,269**
Estimated Cost Shifting Effect %	**(141%)**	**166%**	**25%**

Identified Cost Shift – Building Services	**Definition/Reason**
Pool Safety *Increase in role & responsibilities as a result of legislative changes which require increase in inspections*	Compliance Flow on
Building Fire Regulations *Increase in role & responsibility as a result of legislative changes, which require increase in inspections.(essential services and smoke detectors inspections)*	Compliance Flow on
Building Surveyor Inspections *Increased roles and responsibility for municipal building surveyor as a result of legislative changes requiring increase in inspections (special care building audits and barrier inspections)*	Compliance Flow on
Consent and Reporting – Building *Proposed laws regarding "consent and reports" will provide additional work for building surveyors, which fees will not cover? Building control commission (BCC) previously charges $200 for this service whilst Council will only be allowed to recover $100*	Shift Under fund
Increase Building Surveyor Audits *Increased audits of building surveyors (by Tax Office, Building Commission etc) have a substantial impact on resources*	Compliance
Building Demolition Section 29 Building Act *Complex legislation to administer and the fee is capped at $50.00, cost estimates show that fees should be variable subject to complexity*	Compliance Under Fund
Inspections – Sewage & Water *Water authorities no longer checking fixtures – become the responsibility of Councils*	Shift Flow on
Private Surveyor Complaints *All complaints now referred to Council from BCC*	Shift
Increase Liability Insurance – Private Surveyors *The current insurance situation will result in an increase in workload for Councils (as advised by BCC). Private surveyors not renewing registration – process shift back to Council.*	Shift Under fund
Lodgement Fees *Fees have not kept pace with inflation – The $15.00 fee for provision of information (solicitors & surveyors) is well below actual cost of this service estimated at $162 – fee should be based on actual cost.*	Under fund

Attachment 1.2 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Planning	**Revenue**	**Expenditure**	**Net Expenditure**
1997	1,963,747	1,379,450	(584,297)
2002	2,442,118	2,751,765	309,647
Inflation Effects	(512,845)	(577,871)	(65,026)
Service level Effect	(244,212)	(412,765)	(168,553)
Adjusted 2002 Level	1,685,061	1,761,130	76,068
Net Variance – Estimated Costs Shift	**278,686**	**381,680**	**660,365**
Estimated Cost Shifting Effect %	**14%**	**28%**	**13%**

Identified Costs Shift – Planning Services	**Definition/Reason**
Rescode *Introduction of rescode has had a dramatic effect on the time taken to assess and process planning applications- Showing a dramatic effect in application unit cost*	Compliance Under fund
Heritage *Defined heritage areas, and individual building classification- Inner Metro councils costs have increase as a result of meeting heritage requirements*	Compliance
Planning Act Amendment *Continued amendments of complex legislation result in time to process applications and cost increases*	Compliance
Planning Appeals Process *Complex appeals process results in Council requiring legal representation at appeals resulting in increased costs.*	Compliance
Planning Fees *Current level of planning fees do not adequately cover the costs of administering the Planning and Environmental Services Act*	Compliance Under Fund

Attachment 1.3 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Public Health	**Income**	**Expenditure**	**Net Expenditure**
1997	257,750	1,743,962	1,486,212
2002	462,981	2,674,037	2,211,056
Inflation Effects	(97,226)	(561,548)	(464,322)
Service level Effect	(46,298)	(267,404)	(221,106)
Adjusted 2002 Level	319,457	1,845,086	1,525,629
Net Variance – Estimated Costs Shift	**(61,707)**	**101,124**	**39,417**
Estimated Cost Shifting Effect %	**(24%)**	**6%**	**3%**

Identified Costs Shift	**Definition/Reason**
EPA – Traffic Noise *Delegated investigation responsibilities from the EPA have result in cost increases – EPA not providing resources and support to investigate complaints which clearly form part of their "act" and policy area – example is the traffic noise increase as a result of the freeway privatisation*	Shift
Tobacco *Department of Human Services – Tobacco unit continues to introduce legislation which requires enforcement by local government*	Compliance
Immunisation *Requirements have increased significantly (state government infant vaccination program) with out financial assistance or resources*	Compliance Under Fund
Food Act *Food Act requirements have increased dramatically as a result of legislative changes. Annual registration fees only partially cover cost of administration and enforcement*	Compliance Under Fund
Health Act Reporting *Current move to introduce reporting to VicFin introduces additional costs and resources requirements*	Compliance
Health Act Amendments *Council is now responsible for the registration, maintenance and annual audits of cooling towers*	Compliance

Attachment 1.4 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Waste Management	**Revenue**	**Expenditure**	**Net Expenditure**
1997	1,606,407	3,602,283	1,995,876
2002	2,177,273	5,113,059	2,935,786
Inflation Effects	(457,227)	(1,073,742)	(616,515)
Service level Effect	(130,636)	(306,784)	(176,147)
Adjusted 2002 Level	1,589,409	3,732,533	2,143,124
Net Variance – Estimated Costs Shift	**16,996**	**130,250**	**147,248**
Estimated Cost Shifting Effect %	**1%**	**4%**	**7%**

Identified Costs Shift	**Definition/Reason**
Waste Minimisation *Requirements to reduce levels of waste to land fill has result in a increase in cost and resources – To meet Government standards new techniques and process required ie bin size reduction.*	Compliance
Recycling *Forms part of the waste minimisation strategy – introduction of recycling collection and process has increased costs and resource levels.*	Compliance
State Land Fill Levy *Levy introduced by State Government forming part of the waste minimisation strategy. This levy had a direct effect on costs to Council of 4%.*	Compliance

Service: Information Technology	**Revenue**	**Expenditure**	**Net Expenditure**
1997	11,060	879,764	868,704
2002	11,695	1,265,230	1,253,535
Inflation Effects	(2,456)	(265,698)	(263,242)
Service level Effect	(702)	(75,914)	(75,212)
Adjusted 2002 Level	8,537	923,618	915,081
Net Variance – Estimated Costs Shift	**2,523**	**43,854**	**46,377**
Estimated Cost Shifting Effect %		**5%**	**5%**

Identified Costs Shift	**Definition/Reason**
'E" Business Government on line *Requirement by government to network the nation and have all government bodies provide services online requires council to fund IT infrastructure development and software enhancements to meet objectives. Council required to meet ongoing costs and resources requirements without recurrent funding*	Under Fund Shift
Flow On Effect – Legislative change *The effect to service areas of Council to meet transferred responsibilities resulting from legislative changes will have a flow on effect to IT to meet the demands on these changes.*	Compliance Flow On (Indirect)
Software Enhancements *Changes to legislation requires Council to upgrade existing software to meet the recording and reporting requirements*	Compliance

Attachment 1.5 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Local Laws	**Revenue**	**Expenditure**	**Net Expenditure**
1997	307,349	750,420	443,071
2002	462,981	1,315,376	852,395
Inflation Effects	(97,226)	(276,229)	(179,003)
Service Level Effect	(27,779)	(197,306)	(169,527)
Adjusted 2002 Level	337,976	841,841	503,865
Net Variance – Estimated Costs Shift	**(30,627)**	**91,421**	**60,794**
Estimated Cost Shifting Effect %	**(10%)**	**12%**	**14%**

Identified Costs Shift	**Definition/Reason**
Animal Registrations *Council to collect pay to state increased levy for registrations, which has no benefit for residents or Council. $2.50 per registered animal* *Cost and administration increases*	Excess Levy
Dog Act – Amended Legislation *New legislation requires Council to enforce and investigate provisions of the restrictive dogs (dangerous) with no set fee or funding*	Compliance
School Crossing *School crossing management and supervision continues to increase with no additional subsidy or funding* *Previously this service was fully funded*	Under Fund
Parking – State Facilities *Lack of funding to maintain, monitor and upgrade parking facilities around public facilities such as schools*	Shift Under Fund

Attachment 1.6 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Community Services	**Revenue**	**Expenditure**	**Net Expenditure**
1997	5,711,250	7,054,098	1,342,848
2002	7,041,854	9,727,701	2,685,847
Inflation Effects	(1,478,789)	(2,042,817)	(564,028)
Service level Effect	(266,034)	(519,779)	(253,745)
Adjusted 2002 Level	5,297,030	7,165,104	1,868,074
Net Variance – Estimated Costs Shift	**414,220**	**111,006**	**525,226**
Estimated Cost Shifting Effect %	**7%**	**2%**	**39%**

(Service level has been adjusted to account for closure of Child Care Centre)

Identified Costs Shift	**Definition/Reason**
Health & Community Care *HACC program is significantly under funded, resulting in Council providing major top up to meet service demands. Government policies have increased the user base significantly, with no additional funding or resources.*	Shift Under Fund
Maternal & Child Health *Funding based on unit costs per hour does not meet costs. State Government health policies have placed additional workload and costs to these services (early release post natal) with no funding*	Shift Under Fund
Child Care *1. Loss of operational subsidy for long day care has impacted on community child care i.e. reduced service choice – Council incurs costs* *2. Amendments to government regulations governing the operations and accreditation of family day care have increased resource requirements of both Council and the provider* *3. Changes to Child Care Building Regulations have imposed additional costs on the service which are only partially funded* *4. Reduction in operational levy*	Shift Under Fund Compliance Under Fund Compliance Under Fund Under Fund
Libraries *1. Grants, operational and capital, are substantially below costs. Previously funded on the basis of "50/50", now less than 14% of costs.* *2. Government education funding has affected the utilisation of the service – student usage increased.*	Under Fund Shift Shift (indirect)
Crime, Safety and Graffiti Programs *One off funding is provided to develop/establish the service/program – recurrent costs borne by Council*	Under Fund Shift
Primary Care Partnerships *Councils required to participate and co-ordinate services – Individual projects are funded, Councils are not*	Under Fund Shift

Attachment 1.7 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Integrated Planning	**Income**	**Expenditure**	**Net Expenditure**
1997	10,616,552	9,068,422	(1,548,130)
2002	14,578,641	14,999,660	421,019
Inflation Effects	(3,061,515)	(3,149,929)	(88,414)
Service level Effect	(927,837)	(2,235,003)	(1,307,166)
Adjusted 2002 Level	10,589,289	9,614,728	(974,561)
Net Variance – Estimated Costs Shift	**27,263**	**546,306**	**573,569**
Estimated Cost Shifting Effect %	**0%**	**6%**	**37%**

Identified Costs Shift – Integrated Planning	**Definition/Reason**
Asset Renewal *Government placing greater emphasis on Council's asset renewal program – Stonnington currently providing sufficient funds to meet renewal objectives. The continued transfer of responsibilities to LG will restrict Stonnington's ability to meet the cost of renewal without funding*	Under Fund
Road Safety *Increased role and responsibility in respect to road safety will require an increase in resources and costs*	Shift Under Fund
Economic Development *Economic development has become a mainstream local government activity due to legislative changes*	Compliance Shift
Open Space *Changes to Planning legislation (density of housing), has lead to an increased public open space requirements. This has required a redirection of funds to purchase and enhancement of public open space.*	Shift (indirect) Flow on
Traffic Infringements *Statutory level of fees has not kept pace with inflationary movements. Net recoverable via Perin Court has reduced dramatically*	Compliance Under Fund

Attachment 1.8 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Leisure Cultural & Youth	**Revenue**	**Expenditure**	**Net Expenditure**
1997	1,181,334	1,635,484	454,150
2002	1,956,145	3,842,599	1,886,454
Inflation Effects	(410,790)	(806,946)	(396,155)
Service level Effect	(229,856)	(732,652)	(502,796)
Adjusted 2002 Level	1,315,499	2,303,001	987,502
Net Variance – Estimated Costs Shift	**(134,165)**	**667,517**	**533,352**
Estimated Cost Shifting Effect %	**(11%)**	**41%**	**117%**

Identified Costs Shift – Leisure, Cultural & Youth	**Definition/Reason**
Youth Services *Partial funding of youth support workers. Increased demand for services. School focussed youth services. Long term grants will not be available from next year.*	Under Fund
Leisure Services *Increased role and responsibility in respect to the provision of services.*	Under Fund
Cultural Services *No direct associated costs*	

Service: Community Planning	**Revenue**	**Expenditure**	**Net Expenditure**
1997	0	1,225,410	1,225,410
2002	0	1,881,329	1,881,329
Inflation Effects	0	(395,079)	(395,079)
Service level Effect	0	(188,133)	(188,133)
Adjusted 2002 Level	0	1,298,117	1,298,117
Net Variance – Estimated Costs Shift	**0**	**72,707**	**72,707**
Estimated Cost Shifting Effect %	**0%**	**6%**	**6%**

Identified Costs Shift	**Definition/Reason**
Gambling *State gambling legislation requires Council to prepare and submit a detailed social and economic impact statement in response to any new EGM gaming application in the municipality – This requirements becomes the sole responsibility of Council*	Compliance Under Fund
Disability Discrimination Act *Ongoing implications on Council to upgrade facilities and infrastructure to meet requirements.* *Add additional process to building and planning process* *Council appears to be responsible for complaint review*	Compliance
Housing *New state initiative (social housing innovation project) focuses on the development of partnership arrangements for provision of community housing in local areas – exist social housing may require council involvement in redevelopment.*	Under Fund Shift

Attachment 1.9 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Engineering & Infrastructure /Roads	**Revenue**	**Expenditure**	**Net Expenditure**
1997	1,394,968	4,981,304	3,586,336
2002	1,719,713	8,909,788	7,190,075
Inflation Effects	(361,140)	(1,871,055)	(1,509,916)
Service level Effect	(164,797)	(1,336,468)	(1,171,671)
Adjusted 2002 Level	1,193,776	5,702,264	4,508,488
Net Variance – Estimated Costs Shift	**201,192**	**720,960**	**922,152**
Estimated Cost Shifting Effect %	**14%**	**14%**	**26%**

Identified Costs Shift	**Definition/Reason**
Main Roads Maintenance *The redefining of main roads has resulted in a transfer of responsibility, reduction of funding and additional cost to Council.* *These changes add costs to Councils future asset renewal requirements.*	Shift
Road Reserve *Changes in responsibility for road reserve areas has meant that Council will incur additional recurrent costs to maintain the areas.*	Shift Under Fund
Land Adjacent to Freeways *Council maintains Land adjacent to the south-eastern freeway – no recurrent funding is provided to meet the resources and costs requirements of this maintenance.*	Under Fund Shift
Black Spot Funding *Council is expected to fund black spot projects not met by the state government.*	Under Fund
50km / p Speed Limits *With the introduction of the 50 km/p speed restrict, community expectation have increased for traffic management devises to assist containing traffic speed – the partial funding of signage replacement does not meet to ongoing recurrent cost of installation and replacement of these devices*	Compliance Under Fund
Heavy Vehicle Road Limit *Changes to the heavy vehicle road limitations will have a detrimental effect on the life of some local roads. No funding is provided to meet the accelerated maintenance program, which Council is and shall continue to incur as a result of this variation.*	Under Fund

Attachment 1.10 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Valuations/Resources	**Income**	**Expenditure**	**Net Expenditure**
1997	106,091	206,921	100,830
2002	125,619	542,237	416,618
Inflation Effects	(26,380)	(113,870)	(87,490)
Service level Effect	(12,562)	(54,224)	(41,662)
Adjusted 2002 Level	86,677	374,144	287,466
Net Variance – Estimated Costs Shift	**19,414**	**167,223**	**186,636**
Estimated Cost Shifting Effect %	18%	81%	85%

MFB Contribution	**Revenue**	**Expenditure**	**Net Expenditure**
1997		996,120	996,120
2002		1,448,853	1,448,853
Inflation Effects		(304,259)	(304,259)
Service level Effect		(0)	(0)
Adjusted 2002 Level		1,144,594	1,144,594
Net Variance – Estimated Costs Shift		**148,474**	**148,474**
Estimated Cost Shifting Effect %		**15%**	**15%**

Identified Costs Shift	**Definition/Reason**
Two Year Revaluation Cycle *The introduction of a two-year valuation cycle has increased recurrent costs substantially.* *Information requirements of The Valuer General together with the introduction of a state wide best value process have also increased costs. The level of which is yet to be determined.*	Compliance Under Fund
MFB	
MFB Contributions *Contribution payable to the MFB have increased substantially over the review period. The level of state government and user pay funding should be reviewed.*	Shift Indirect - Under Fund

Attachment 1.11 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Finance	**Revenue**	**Expenditure**	**Net Expenditure**
1997	1,315,747	2,748,547	1,432,800
2002	1,536,250	3,825,728	2,289,478
Inflation Effects	(322,612)	(803,403)	(480,790)
Service level Effect	(92,175)	(229,544)	(137,369)
Adjusted 2002 Level	1,121,463	2,792,781	1,671,319
Net Variance – Estimated Costs Shift	**194,285**	**44,234**	**238,519**
Estimated Cost Shifting Effect %	**15%**	**2%**	**17%**

Identified Costs Shift	**Definition /Reason**
Good & Service Tax *The introduction of the G.S.T. has added and administration burden on to Council at a cost of approx. $85,000 per annum* *Local Governments should be G.S.T. exempt which would be beneficial to both the ratepayer and council alike. Analysis of the tax legislation identified areas which are very complicated, and difficult to interpret.*	Compliance
Unfunded Superannuation Liability *As a result of a state direction the unfunded superannuation liability was required to be paid by Council. This required Council to borrow funds of $8,221,618 over ten years at an interest rate of 5.3%.* *This is a direct cost to annual performance over the defined period – if funding were required at the time of retirement costs to Council would be reduced.* *Annual Effect $800,000 per annum interest over ten years*	Compliance
Victorian Grants Commission *Over the period analysed the real value of the general purpose grant has reduced by 20% account for inflation and service levels.* *This reduction has been funded by rate increased.*	Under Fund

Attachment 1.12 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Service: Civic	**Revenue**	**Expenditure**	**Net Expenditure**
1997	247,231	4,519,005	4,271,774
2002	304,928	6,142,284	5,837,356
Inflation Effects	(64,035)	(1,289,880)	(1,225,845)
Service level Effect	(6,099)	(127,925)	(121,826)
Adjusted 2002 Level	234,795	4,724,480	4,489,685
Net Variance – Estimated Costs Shift	**12,436**	**205,475**	**217,911**
Estimated Cost Shifting Effect %	**5%**	**5%**	**5%**

Identified Costs Shift	**Definition /Reason**
Whistleblower Legislation *Costs of developing procedures and acquisition of required guides. Training of staff in legislative and procedural requirements. Ongoing costs associated with compliance*	Compliance
Privacy Legislation *Costs associated with procedural development, legal interpretation staff guides development, staff training, and implementing of business processes to ensure compliance. Ongoing costs of compliance including audit policy maintenance and compliance statement.*	Compliance
Employment Related Legislation *Costs of Continual review of work practices and policy documentation to ensure compliance with the Acts*	Compliance
National Competition Policy & Competitive neutrality *Council's are required to comply with NCP and CN (1994), which means that they are now subject to part IV of the Trade Practices Act, and most comply with CN for significant businesses. The resulting administration overhead of approx. $50,000 is a unfunded cost to local government*	Compliance
Best Value / KPI's Reporting *The reporting within this area has increased significantly over the 5 years. Requirements are such that system have been developed to monitor the ongoing requirements in these areas – this cost is directly borne by the ratepayer with out any real benefit*	Compliance Under Fund

Attachment 1.13 – Financial Analysis by service 1997 – 2002 & identified cost shifts

Overall Effect of Cost Shifting	**Revenue**	**Expenditure**	**Net Expenditure**
1997	24,984,265	41,056,520	16,072,255
2002	33,815,430	65,455,847	31,725,417
Inflation Effects	(7,101,240)	(13,745,728)	(6,662,338)
Service level Effect	(2,298,272)	(6,849,080)	(4,550,808)
Adjusted 2002 Level	24,415,918	44,928,189	20,512,271
Net Variance – Estimated Costs Shift	**568,347**	**3,871,669**	**4,440,016**
Estimated Cost Shifting Effect %	**2%**	**9%**	**28%**

Excluding Rates & Municipal Charges

Cost shifting has resulted in Stonnington incurring additional estimated net costs of $4,440,016

This figure translates to an increase in rates over this period of 28%

Attachment 1.14 – Grant & Subsidy Comparison 1997 – 2002

Grants & Subsidies	**Revenue**
1997	5,348,561
2002	6,537,142
Inflation Effects	(1,372,800)
Service level Effect	(392,229)
Adjusted 2002 Level	4,772,114
Net Variance – Estimated Costs Shift	**576,447**
Estimated Cost Shifting Effect %	**11%**

Real net reduction in grants over the 5 years is $576,447 or 11%. Overall grants have not kept pace with inflation let alone the additional services which Council has been required to provided, as a result of cost shifting.

Attachment 2

Stonnington Rate Increase – 1997 - 2002:

		Rates
1997		27,051,475
2002		39,195,649
Inflation Effects		(5,680,810)
Service level Effect		(1,623,089)
Natural Growth		(4,057,721)
Adjusted 2002 Level		27,834,030
Net Variance – Estimated		**782,555**
% Real Growth		**3%**

Councils real rate growth over this period is only $782,555 or 3% after allowing for Inflation, service level impact and natural growth (supplementary) of 15%. This figure is well below the 28% identified under the cost shifting models (refer Attachment 1.13).

A comparison of the figures highlights that Stonnington is funding the effects of cost shifting from its natural growth, reduction in capital expenditure, sale of assets and or a direct increases to ratepayers. These generation of additional funds, based on the information in this report, would normally be directed towards service level enhancements and or capital/infrastructure redevelopment for the benefit of the community, however they are being used to fund the effects of cost shifting.

Continued costs shifting by the Federal & State Governments will have an impact on Stonnington’s ability to provide service enhancement to the community.

Attachment 4

Definitions and Terms of Reference Used in Appendixes C:

Compliance: Additional costs / resources required as a result of compliance to new / amended State & Federal Legislation.

Under Fund: Although funding may be provided for new / amended responsibilities it is insufficient or short term (eg. One off rather than recurrent.)

Shift: Clear transfer of State and or Federal responsibilities to Local Government Authorities (L.G.A.'s) with no associated funding.

Excess Levy: New or increased levels imposed on L.G.A.'s for no or insufficient return.

Flow On: Indirect costs which L.G.A.'s are responsible for as a result of compliance, under funding, or shifting of responsibilities

Attachment 5

Basis of Financial Analysis:

The paper has been developed to analysis the effects on the City of Stonnington's net expenditure and the impact on its financial capacity as a result of changes in the powers, functions and responsibilities between state and local government.

The terms of reference have been expanded to also include impacts of changes in power, functions and responsibilities between Commonwealth and local government.

When reading this document the elements listed below, as having some contribution to the increase on the overall expenditure levels of the City of Stonnington should be considered.

- Inflation The deemed compounded (weighted) effect of inflation for the financial periods analysed is 21% (1997 to 2002). All figures shown in the table have not been discounted for the inflation factor.
- Per Capita growth within the municipality has been approximately 10%.
- The number of properties within the municipality has increased by 6%
- Service levels have increased in line with the demand equivalent to the per Capita growth, property growth and or growth in economic development of 15%
- All figures have been reconciled to the Council's published annual accounts and budgets the periods 1997 to 2002

Note: Figures have been adjusted to exclude the following:

1. *Depreciation;*
2. *One off variances such as redundancies with have occurred as a result of amalgamation, CCT and restructuring;*
3. *Sale of property , plant and equipment etc;*
4. *Internal provided services such as fleet maintenance; and*
5. *External income & expenditure derived from commercial ventures*