



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

Email: EFPA.Reps@aph.gov.au

Re: Inquiry into Cost Shifting onto Local Government

I refer to your request for submissions to this inquiry.

The City of Tea Tree Gully welcomes the inquiry and the opportunity to make this submission, which is attached.

For your background information, the City of Tea Tree Gully is one of the largest metropolitan local governments in South Australia. It extends from suburbs with extensive views over the Adelaide Plains to the hills and countryside. The city embraces every aspect of modern living, shopping and entertainment, has an area of 96 square kilometres and contains a population of over 98,000 people. The City has approximately 67,000 electors. Over 800 hectares of land is set aside for public reserves. The City is located 14km north east from the Adelaide CBD.

Yours sincerely

Greg Perkin
Chief Executive Officer

cc Trish Draper MP
Member for Makin

John Comrie
Executive Director
Local Government Association of SA

Executive summary

Key conclusions from this submission:

- 'Cost shifting' effectively unfairly transfers the rewards and economic benefits accrued from Council's continuous improvement efforts to other levels of government
- Grants Commission allocation formula severely distorts outcomes.
- Real reductions in Federal financial support have increased ratepayer contributions by over 11% over the last 15 years.
- Other sources of revenue such as total user and statutory charges have declined from 9.9% to 9.2% of total revenue over the past 8 years.
- Socio-economic indicators used for grant prioritization are distorting grant allocations.
- Opportunities for greater cooperation on regional issues is severely limited by availability of staff resources.
- Altering the 'architecture' of Governance systems is changing the funding base of 'state' services from broader state-based taxation to a regional and property value based tax system.
- This report provides a number of specific examples to illustrate the impact of cost shifting.
- State Government 'joint venturing' land development enables the state to earn entrepreneurial profits whilst applying a legislative exposure by local government to significant cost risks.

1. Local Government's current roles and responsibilities

This submission deals with this term of reference by specific examples included within the responses to other terms of reference. In summary, those references indicate that there is strong evidence of a substantial 'cost' shift to local government, predominantly caused by the transfer of roles and responsibilities driven by a desire to ensure that local government shoulders the financial burden for improved community outcomes.

Council's role naturally includes a desire to continue to strive for performance improvement. It is disheartening to appreciate that the economic value of this performance improvement is outweighed by 'cost shifting' from other levels of government.

2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilization of alternative funding sources by local government

The City of Tea Tree Gully has made submissions to the South Australian Grants Commission, and the 2001 Federal Inquiry, arguing that there is a major flaw in the 'revenue component' methodology of the grant allocation. This 'flaw' has had a major impact on the allocation of funding to this City. An extract from the last submission, states

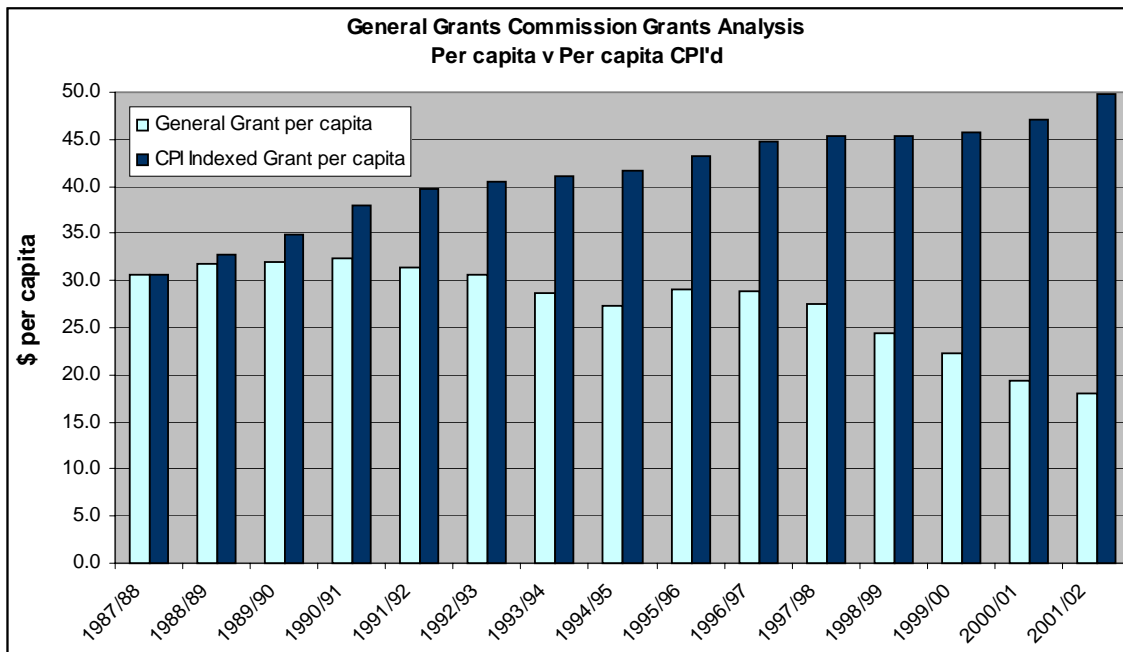
Council's analysis has focused on the 'revenue component' of the grant, because it is this aspect that it believes is mainly contributing to dysfunctional outcomes. The Commission has received a presentation on this subject from Council staff and is aware of the view that 'metropolitan' Councils' ability to raise revenue is being influenced by comparative rating levels. The capacity to raise revenue appears to be heavily influenced by comparative rating levels, as evidenced by Councils with very low average property capital values, achieving much higher rate revenue than their 'value rating ability' would imply. As a consequence some Councils are receiving grant compensation for an inability to rate that does not exist.

The City of Tea Tree Gully believes that it has demonstrated that there is a strong correlation between average rating 'levels', particularly in metropolitan Adelaide (which enables Councils with low average property values to achieve higher rate revenue outcomes), and therefore a methodology based on capital values is rewarding Councils with lower property values but a propensity to raise higher rates.

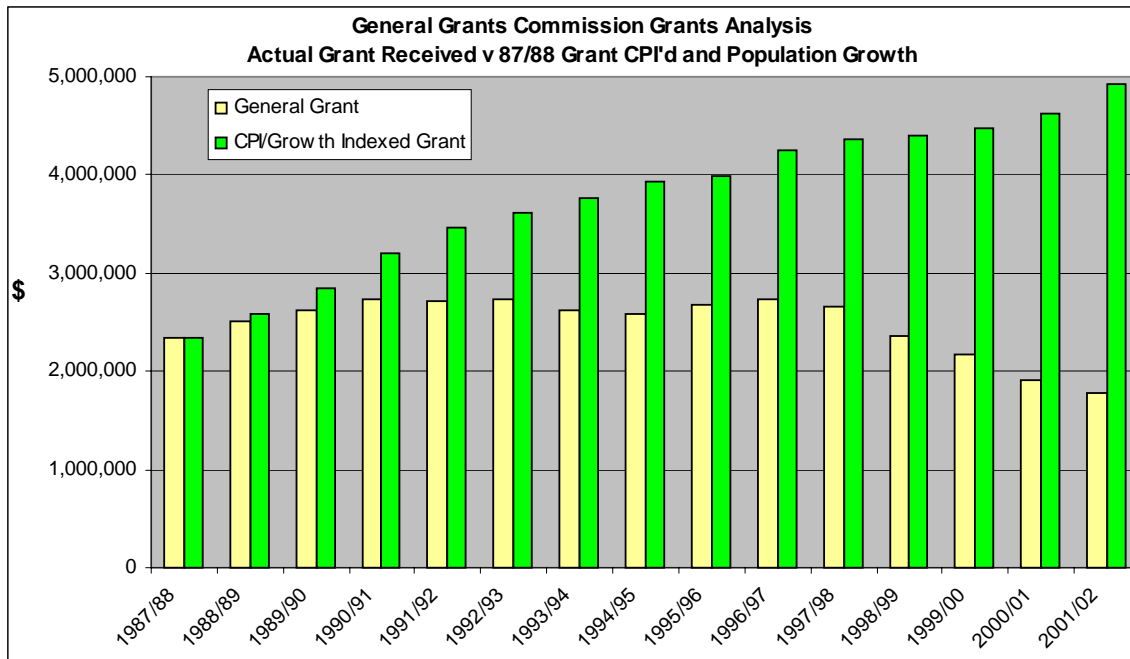
The phasing in of a new methodology, which based the revenue capacity formula solely on property capital values, has been disastrous financially for a number of Councils in South Australia, especially as it occurred during a period where all Governments have been placed under financial strain. Local Government cost increases have exceeded inflation levels, the guide by which

the community measures its preparedness to pay. Combined with an ever-increasing transfer of responsibilities from other Governments and a falling share of general grant support, the gap to be financed directly by the community has been exacerbated by declining Federal assistance. This is clearly illustrated by the following diagrams.

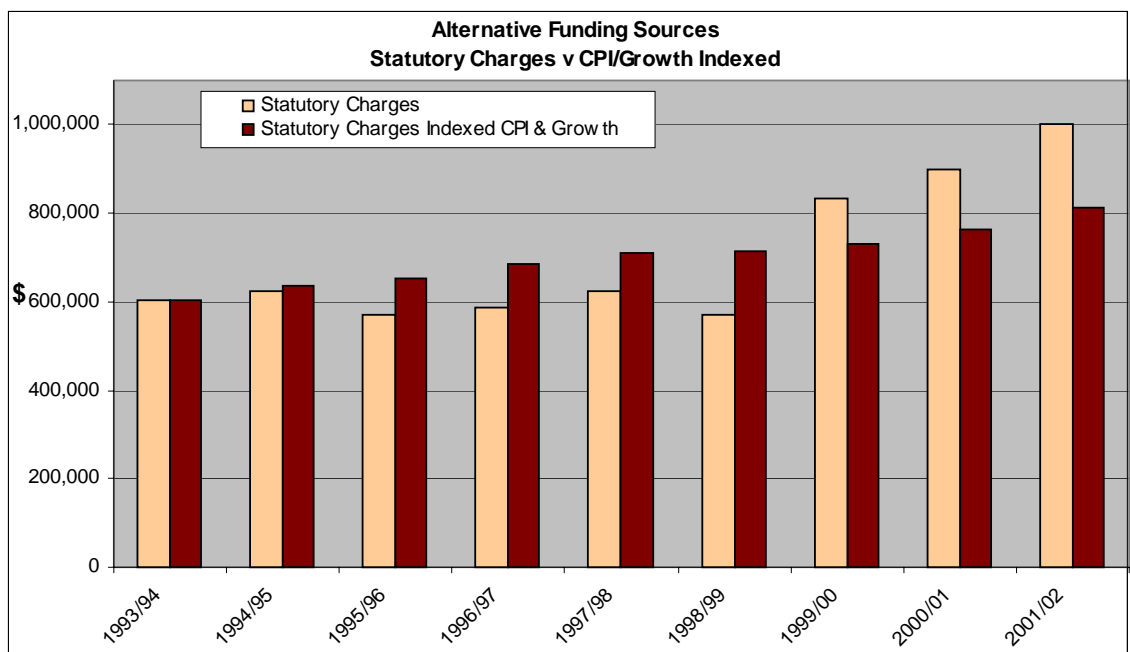
The first graph shows the last 15 years of general Grants Commission grant history, per capita, compared to a per capita rate had the rate been indexed by CPI changes since that year. Had the per capita grant been maintained in real terms the City of Tea Tree Gully would have received **\$4.929m** in 2001/02 compared to an actual grant of only **\$1.775m** (a **shortfall of \$3.15m**). The shortfall alone means that ratepayers have experienced an **11%** increase in rate levels (in excess of expected cost increases) due to the grant reduction.



Alternatively, this can be illustrated by the indexation of the actual grant received in 1987/88 compared to 2001/02. The magnitude of this real decline in Grants Commission Grant has placed significant financial pressure on the Council's finances, resulting in average rate levels at the 'high end' in comparison to other South Australian councils.

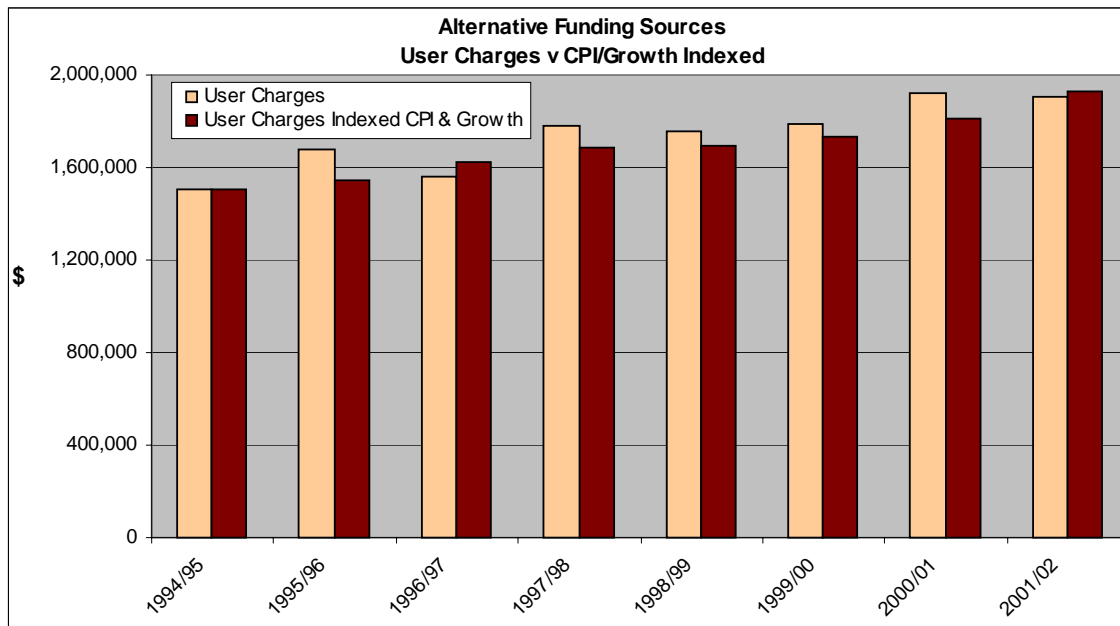


Another source of revenue, but representing only 3.2% of rate revenue, is **Statutory charges**, mainly comprising development and public safety related charges. Whilst there has been a favourable trend in the most recent 3 financial years, this has only offset and compensated the shortfall in the previous 4 years where revenue growth fell behind prices and development growth. Of more importance is the deteriorating net expenditure trend, with outlays estimated to exceed revenues by more than \$1.5m in 2002/03.



An even more disappointing outcome is user charges, which are essentially sourced from the 'business-like' activities of the Council. User Charges are still only 6% of rate revenue, and have been unable to keep place with CPI increases, whilst net returns have declined at an even greater rate as costs

increase at higher levels. Price increase controls during the implementation of the GST appear also to have a constraining impact on market prices.

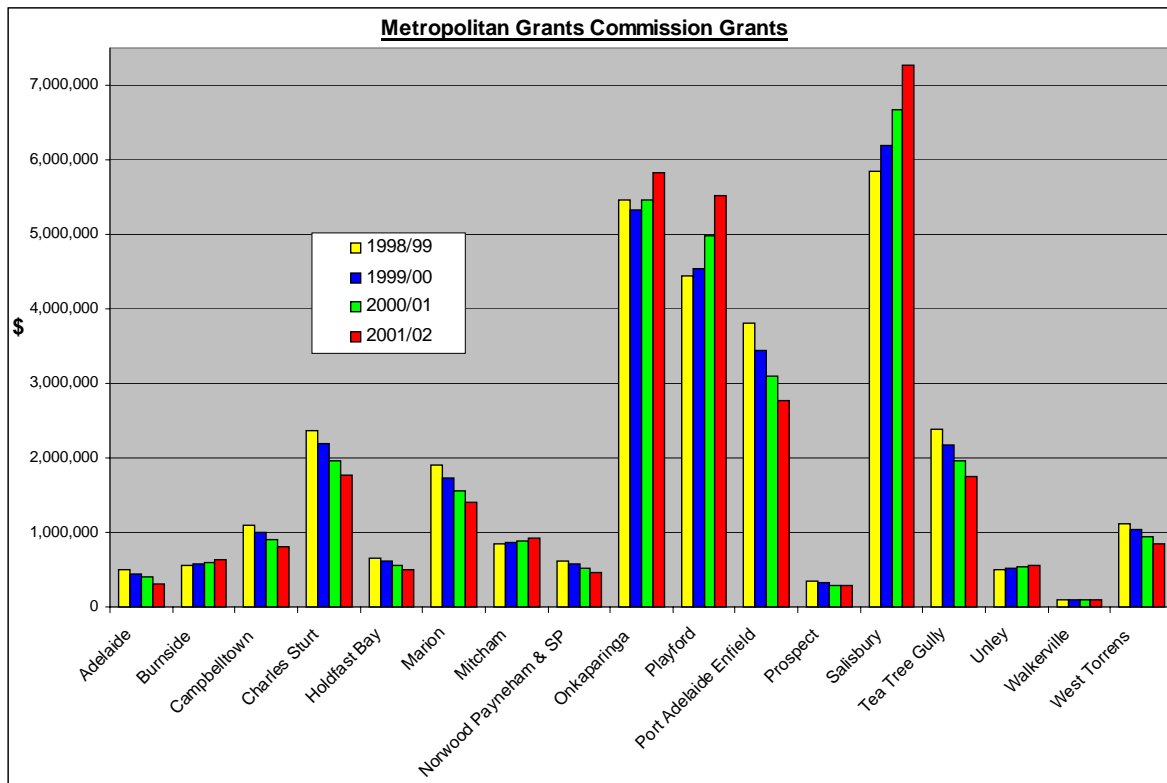


Total user charges and statutory charges, the major alternative sources of operating revenue, have fallen from being **9.9%** of general rate revenue in 1994/95 to only **9.2%** in 2001/02; thereby putting even further upward pressure on rate increases. In summary, the ability to use alternative revenue sources has generally declined during the last decade.

Socio-economic indicators distort grant support

Our hypothesis is that the same socio-economic indicators are the key drivers for distorting grant support. Tea Tree Gully staff are often advised that there is insufficient 'need' for grant support of community projects, and other Councils with greater need have been successful in winning support. However, socio-economic indicators do not comprehensively take account of the total financial support Council's are receiving.

The following graph indicates the history of Grants Commission allocations over the past 4 financial years, and the growing disparity between allocations. The City of Salisbury, a **neighbour** council of Tea Tree Gully, received \$59.88 per capita in 2000/01, compared to \$20.22 at Tea Tree Gully. Apart from disbelieving that economic conditions of a direct neighbour could be so different, there is a concern that the same economic indicators that achieve this outcome are also driving other outcomes in a multiplier affect. [Note: Salisbury will have received over \$8.3m in Grants Commission grants in 2001/02 compared to Tea Tree Gully's \$2.4m, even though the population differential is only 15%].



3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for Councils to work with other councils and pool funding to achieve required cost concerns

The City of Tea Tree Gully addresses a number of its obligations in partnership with a differing number of its Regional neighbours.

These issues include Waste Planning, Drainage, Purchasing, Cities for Climate Change, Special Road Funding and Benchmarking.

On a broader scale, Council is a member together with other South Australian Councils in the Local Government Association of SA (LGA) "businesses" which deal with Superannuation, Workers compensation, Liability and more recently Assets. These insurance businesses of the LGA provide Councils with excellent risk management services lower than market premiums and bonuses for achieving good results. The business models utilized in these businesses which are in partnership with industry experts are best practice and have stood the test of time.

On a broader planning scale this Council is a member of the Metropolitan Local Government Group (MLGG) which is focussed on Metropolitan Adelaide Regional Issues and thus enables a forum and vehicle for a holistic rather than incremental approach to Metropolitan issues. This focus of the MLGG is supported by the CEO's of Councils in the Adelaide Metropolitan Area who

together form the Metro CEO's Association and manage much of the groundwork for MLGG. This focus has recently been bolstered by Council's contributing funds to the MLGG to support project works.

There are clearly opportunities for greater co-operation on Regional issues, however, the issue of available staff resources severely impacts on these achievements. The difficulty for Regional Co-operation between Councils is accentuated in Adelaide because there are 16 councils representing the metropolitan area. 5 of these represent half the population, the other half of the population is represented by 11 councils. If the pattern of local government is properly reviewed then it would be much easier for entire councils (as in the case of the City of Onkaparinga) or two or three councils, to deal with Regional matters rather than the 6 to 7 that need to be involved to cover some regional issues as at present.

What needs to be understood is that different Regional issues impact different regions, the lesser number of jurisdictions involvement the easier it is to liaise.

Are Regional issues a state responsibility or a Local Government responsibility? The 'Architecture of Governance Systems' in South Australia does not provide a clear answer.

The recently established Water Catchment Management Boards were established and membership approved by the State, but the funding base was via a local tax (levy) that by legislation Councils are obliged to gather via their rating systems. In essence these are state bodies dealing with Regional issues funded by a 'regionally-based' state tax.

This Council contributes \$750,000 to the two Boards that cover this City. However, the benefit the City receives in return is far short of this amount. Another aspect of Water Catchment Board funding is that ratepayers in urban areas are subsidising the rural areas of the Catchments by funding projects that do not impact this Council area. Traditionally, these projects would have been funded by 'state wide' taxpayers.

This change in the 'Architecture of Governance Systems' is changing the funding base of state services, i.e. State services are being funded by local ratepayers based on capital value of properties rather than by state wide taxpayers who contribute via differently leveraged tax bases. This is a new pattern of shifting costs directly to local ratepayers rather than by the services being handed to Councils and then supported by Council's rating of these same people. This new pattern is insidious in that it requires payment by ratepayers without expenditure control by the usual ratepayer funded management body, the local Council.

Concerns at this new pattern is further compounded by the power and responsibilities of the Boards relative to councils not being clear. There is still

after 8 years of Water Catchment Management Boards no clear position on whether the Boards or Councils are responsible for flood mitigation or as to who owns the water.

This later issue is critical to achieve effective water re use goals.

This new pattern of Governance is raised because it exposes two significant issues as follows:

Which level of government should deal with Regional issues and further what issues are best dealt with Regionally, and secondly

Whether the focus of this inquiry should be on which level of government does what, or rather from a contrary direction as to what is the best funding base for services and which form/level of government best enables those taxed to have representation on deciding how much the tax should be and how it is spent?

4. **Local Government expenditure and the impact on local government's financial capacity as a result of changes in powers, functions and responsibilities between State and Local Government**

Library Services (a specific 'cost shifting' example)

An excellent example of the negative financial impact of the transfer of 'responsibilities' is the shared delivery of **Library services**. In 1990/91 the first year of a shared Library facility with TAFE (an innovative venture purportedly for the benefit of both partners). Council received **\$541,669** in state financial operating support, or **37.7%** of Council's share of Library expenses. The 37.7% was a long way short of the 50% funding levels provided by the State over a decade earlier (but local government had long given up on equally shared contribution to local learning, even though many of the users of the facility are non residents).

By 2000/2001 ten years later the level of subsidy had fallen to only **17.4% or \$373, 853**, whilst Council's share of costs had increased from \$1,437,481 to **\$2,146,240**.

Therefore, Council's costs (like most of its services) had risen by an average annual increase of **4.1%** since 1990/91 compared to average annual inflation of **2.8%**. However, State subsidy had declined in real terms by over \$430,000. Even if the 37.7% subsidy level was maintained this would have represented over **\$712,000**, not the \$374,000 actually received. Obviously this decline in support places a significant strain on finances, with the shortfall being directly funded by ratepayers.

The Council will discontinue its involvement with TAFE in 2002/2003.

Urban Infrastructure examples

Two other examples specifically experienced by the City of Tea Tree Gully, where there are significant cost burdens imposed upon community as a result of State Government involvement and decision-making, are:

- (a) Increase in development activity and the subsequent outcomes which require Council to manage Septic Tank Effluent Disposal (STED) Schemes; and
- (b) The Golden Grove Development where Council has inherited the decisions of the Developer (a Joint Venture between the State Government and Delfin) and is required to continue high levels of maintenance of standards that have not been set with sustainability in mind.

Septic Tank Effluent Disposal (STED)

The development of Council's residential areas in the (mid-late 70's) was unprecedented in terms of demand for residential allotments. State Government were unable to provide essential underground deep drainage services and required, through their agencies (including Department of Public Health) for the developer to install alternative systems to maintain public health. The subsequent result is that 11% (or 4200+ households) within the City are connected to a STED scheme. Council has inherited the responsibility for maintenance of the STED schemes since their installation, as a direct result of State Government policies, requirements and decisions and their inability to provide appropriate levels of infrastructure services for a growing community. Council is required to contribute significant costs towards replacement of the system as required and also pays State Government for the disposal of the effluent water.

Ratepayers of the City contribute towards these costs via a separate additional rate. In some cases where the State owned system also adjoins allotments connected to Council's STED scheme, ratepayers are paying the two rates that are applied, i.e. Council plus State. Council encourages connection to the State system and has, where appropriate, funded the capital cost of conversion from Council to State on behalf of the individual ratepayer.

The council is researching innovative ways to re-use STED water, given these costs and also given that potable water is used to water parks and gardens. While the State encourages this approach, the costs associated with this are primarily sourced through Council and ratepayer contributions.

The ability of Council to respond to sustainability and sensible environmental solutions is clearly constrained by the ability of individual communities to pay.

A further example of cost shifting in relation to this issue is where State decisions have been made to allow urban development in an area where there is no connection to 'deep drainage'.

Appendix A provides an overview of this example. The development of residential housing along Seaview Road within the City took place around 1950 following approvals issued by the State. Appropriate State registered easements were set aside for deep drainage, however, this was not available at the time. As a consequence, alternative septic tank systems were installed with soakage trenches for each individual property, all as approved via the State.

Subsequent to this, the disposal of effluent on individual properties has failed and is at a point where there is potential for significant environmental harm. The State has indicated it is not prepared to extend the deep drainage to these properties due to cost constraints and the small number of properties involved. The State Environment Protection Agency is also involved in ensuring the surrounding environment is protected. Council is now expected to attend to this situation to ensure "public health" is maintained and environmental harm is avoided. There has been no indication of assistance from sources other than Council in terms of attending to this issue and the installation of approximately 2 km of deep drainage. Council's 2002/2003 Budget has had to provide \$600k for capital works to resolve this problem for 23 households.

Golden Grove Development (A Joint Venture between State/Delfin)

The Golden Grove Development Project within the City of Tea Tree Gully has resulted in the construction of new residential housing accommodating in excess of 30,000 people over approximately an 18-year period. The development included the establishment of a district centre to service this population, together with other smaller centres, schools and limited sporting facilities. The project is nearing completion and constitutes nearly one third of the City of Tea Tree Gully in terms of population.

The project is the subject of the Golden Grove (Indenture Ratification) Act 1984 as legislated by the State. It is essentially a joint venture development between the State and the Developer and subject to planning rules managed by the Joint Venture. The Council **was not** a party to the Joint Venture and its normal Local Government and Planning processes have been curtailed by the State Act, yet in the final analysis Council is responsible for the outcomes of the development process. The outcomes of the development have raised serious concerns about the quality of workmanship, robustness and fit for purpose infrastructure, sustainability and the burden of significant maintenance costs in managing park/gardens. The development process has created a high level of expectation within the newly created community. Council is now finding that:-

- Millions of dollars are required to be directed towards the replacement of substandard irrigation systems (in excess of \$4m)
- Trees located in the public road network (some in conflict with Government legislation) are requiring removal and replacement with more appropriate species so as to reduce the potential for future damage to paved surfaces and below ground infrastructure.
- Water costs are escalating at an unprecedented rate – currently \$300k per annum (Golden Grove consumes 600,000 kpa for 30% of the city's population, compared to only 350,000 kpa for the rest of the city).
- Additional costs associated with power to street lighting due to the choice of lights by the Joint Venture, where 30% more lights were required to achieve the required lighting spread and illumination levels.
- A landscape maintenance regime that is in excess of other parts of the City and unsuitable for the climate and state water resources
- The maintenance and managing of unsustainable landscape in what is essentially an urban environment heavily dependent upon water resources from the River Murray.

Again the total value of these increased costs to the Tea Tree Gully community amount to millions of dollars.

Our view is that Council responsibilities have been pre-determined by decisions of the Joint Venture and that the entire Tea Tree Gully community is burdened by significant and unnecessary costs and charges both now and well into the foreseeable future. Attempts to revisit these issues with the Joint Venture have not resulted in any support.

As a consequence, our Council has taken initiatives to resolve the problems of the Golden Grove Development, independent of Government or other assistance on the understanding that the likelihood of any additional support is unlikely. The Tea Tree Gully community will bear these increased costs which include water resource management, investigation of alternative water resources, redevelopment of the landscape to ensure long-term sustainability, and the replacement of poor quality infrastructure well prior to its expected lifecycle timeframe.

Crime Prevention

The attachment of Appendix B illustrates the likelihood of Local Government being required to find additional monies to support safety in the community. The State has decided to significantly reduce funding to this program which was the subject of a funding agreement signed with the State (up until 2004).

The funding arrangements now proposed mean that Councils will need to consider the future of the current program and perhaps abandon the program completely.

The programs themselves have achieved significant gains for communities, e.g. within the City of Tea Tree Gully there has been a 95% reduction in graffiti vandalism. Clearly the community (and to some degree the State) have expectations that the program should continue given the success achieved and as a consequence Council may need to find the funds to support this initiative if it decides to do so.

Other Statutory Changes

The change to State legislation and its impact upon Local Government's ability to accommodate change is always contentious. The experience of the City of Tea Tree Gully is that these impacts have often resulted in the need to allocate additional expenditures and resources without being compensated for that additional responsibility. This ultimately requires the reallocation of resources more often than not from other priority projects/programs.

In South Australia legislative changes to the Development Act, the Environment Protection Act and the introduction of policies attached to these and other legislation has occurred in recent times. There are also proposed changes to the Food Laws. In addition, there is increased demand for HACC Services due to change in society and also as a result of increasing aged numbers in our community.

The ability of Local Government to absorb these additional responsibilities and demands is becoming more difficult, particularly where funding support from external sources is decreasing and the opportunity for Council to increase income via its rate base is not affordable in the community.

While it is acknowledged that some of the above (e.g. Development Act, Building Inspection responsibilities) has had a statutory fee increased via the legislative change, in most circumstances there is no commensurate change to fee structures which would assist in cost recovery. Also the level of fees applicable to the statutory processes are often insufficient to cover costs incurred, e.g. labour overheads, etc. The fees are set by other levels of Government with Local Government unable to adjust them to meet changing circumstances. Adjustments do occur from time to time, however lengthy timeframes are usual and revisiting fee structures by the legislators is irregular.

This when combined with ever decreasing grant monies means significant constraints are imposed on Council's ability to adequately service the community and continue to undertake statutory responsibilities at the high level required by the legislation and community.

Food laws

The introduction of the new food laws, consistent across Australia, and proposed to be operational on 1 December 2002, illustrates the cost shifting that is likely to impose significantly on this Council. Communities have expectations that food outlets in their area are safe and provide safe product to consume. With the introduction of the new food laws Councils will need to upgrade its technology systems to suit the pre-determined State system, consider carefully the resourcing implications (staffing and financial) that will be required to meet the increased responsibility, and yet receive if any support from the State for this substantial change.

Accordingly there should be commensurate levels of funding attached to legislative change or at a minimum the ability of Councils to adjust fees/charges to compensate for the changes in responsibility.

5. The scope for achieving a rationalisation of roles and responsibilities between the levels of Government, better use of reserves and better quality services to local communities

There is clearly scope for differing levels of government to co-ordinate and achieve better outcomes for our communities. The difficulty in advancing this is that the local government is controlled by the state level and individual local governments may have interest in ensuring their continuation rather than focussing on improving the system of governance regardless of the outcome for their entity. While there will be many in Local Government and State Government who can contribute to an improved future it is likely that an independent authority without vested interest in the present system or the possible future system will be required to facilitate and ensure this outcome.

The individual community member is not concerned about which level of government provides facilities or service, just that government facilities and services are provided efficiently and effectively and that he/she has the ability to influence the outcomes which are at least of most direct interest to them.

As discussed earlier in this submission the answer to which level of government should be responsible for a facility or service could be influenced by whether the facility or service is best funded by the ratepayer or the taxpayer. The source of the funding and the scale at which equity/influence is to be determined may assist in establishing the best level of government to deal with the issue.

This Council in advocating for the benefit of its community (who are ratepayers, state taxpayers and federal taxpayers), is that whatever arrangement achieves efficiency and effectiveness of providing Government facilities or services and which enables the community to have appropriate

influence on these issues which most directly impact on their daily lives is what this Council will support.

6. The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001.

In view of our concerns referred in response to term of reference 3, this Council made written and verbal submissions to the **Commonwealth** Grants Commission Review of the Local Government Financial Assistance Act

Our final comments were in relation to the main findings of that Review as follows.

Main findings of the Final Report on which Tea Tree Gully wishes to comment (text italics represents text from the report):

***"The Minimum Grant Principle**, which is well understood and correctly applied by LGGCs, ensures that each LGB receives a minimum of 30 per cent of their population share of the General Purpose pool. All LGBs with roads responsibilities also receive a share of assistance from the Local Roads pool, in accordance with the Identified Road Component Principle.*

The provision of at least a minimum level of assistance to all LGBs reflects one of the underlying intentions of the Commonwealth. This intention should continue to be implemented, but expressed in the form of a Per Capita grant to ensure that every LGB receives a share of assistance. The current rate of this assistance (30 per cent) should be retained."

Our view is that the per capita grant must be retained. For reasons outlined elsewhere in the submission, the methodologies used for determining grant allocations can cause inappropriate distorted outcomes. The retention of a per capita grant provides some protection against misallocation.

*31. LGGCs are not comprehensively assessing needs. They do not assess all areas of expenditure and revenue, they **do not assess all of the influences that affect the cost of providing services or the capacity to raise revenue**, and some of them do not assess relative advantage and relative disadvantage. These aspects of their practices are not consistent with a proper assessment of relative needs and would not, therefore, be consistent with delivering equalisation outcomes.*

Of most concern is that the SA Grants Commission, like others, does not assess all the influences that affect the capacity to raise revenue. Capacity to raise revenue has been based solely on the capital value of property. As submitted to the SA Grants Commission, and referred elsewhere in this submission, it is believed that this **severely distorts** the general grant

outcome, as it has been demonstrated that disadvantaged Councils (as indicated by the quantum of the general grant) are able to raise revenue far greater than implied by capital value of properties in their area. Therefore, they are receiving general grant support for a revenue capacity shortfall that does not exist. The Act does not prescribe property values as the only measure of revenue capacity, this is a choice of the Grants Commissions.