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17<sup>th</sup> July, 2002

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

House of representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: 31  
Date Received: 22/7/02  
Secretary: Burdell

Dear Sir/Madam

**Inquiry Into Local Government and Cost Shifting**

I am pleased to enclose herewith for your information a copy of the Horsham Rural City Council's formal submission to your Committee's current inquiry into Local Government and cost shifting.

The Horsham Rural City Council also supports the submission by the Municipal Association of Victoria (MAV) submission on this matter.

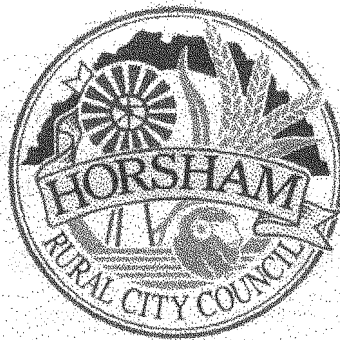
I would be pleased to receive your acknowledgement of same.

Yours faithfully

A handwritten signature in black ink, appearing to read "K. V. Shade".

**KV SHADE (Mr)**  
**Chief Executive Officer**

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**HORSHAM RURAL CITY COUNCIL'S  
RESPONSE TO THE INQUIRY INTO  
LOCAL GOVERNMENT AND COST SHIFTING  
BY THE HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON ECONOMICS,  
FINANCE AND PUBLIC ADMINISTRATION**

**15<sup>th</sup> July, 2002**

Local Government Cost Shifting

Working Paper No. 10/2002

The following information was provided to the House of Representatives Standing Committee on Economics, Finance and Public Administration on 15 July 2002.

A number of these questions will be addressed by Municipal Association of Victoria (MAV). However the Horsham Rural City Council wishes to directly address questions 2, 3 and 4.

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

**Growth Tax Or The Grants Commission Allocation With A Growth Component**

The biggest issue for Local Government in relation to Federal and State Government cost shifting is to do with the inadequate allocation from the Federal Grants Commission to Local Government and the lack of a growth component in this allocation or access of Local Government to a growth tax.

Federal Government and State Governments both have access to growth taxes. The Federal Government, through income tax and the State Government, through the proceeds of the GST. The revenue from both of these taxes grow in line with the general growth of the economy.

Local Governments main source of revenue is through tied and un-tied grants from Federal and State Governments and rating income. Rates are not a growth tax, they are tied to property values and at each valuation cycle, are re-cast to generate the same amount of revenue on an increased valuation.

Local Government needs to access to some form of growth revenue. In 1974/75 the Grants Commission allocation was established and tied at 2% of income tax, which would have provided an ongoing form of growth revenue for Local Government. However, this nexus was broken in the late 1970s and has never been re-established. Consequently Local Government in Australia receives approximately 27% of its proper allocation under the Grants Commission. In other words the Australian Grants Commission calculates the need of Local Government at almost four times higher than the grants which currently allocated and this gap has increased over the last 25 years. It is important that Local Government make a strong claim for either the Grants Commission revenues to be substantially increased and re-tied to the level of income tax receipts or that Local Government be given access to some form of a growth tax.

**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 regional outcomes.***

**State Government Cost Shifting**

**Core Funding Vs Project Funding**

Over the last ten years there has been a move towards project funding which has been of benefit to Council functional areas but is not the most ideal form of funding.

Project funding should not be provided at the expense of adequate core funding. Project funding involves high administrative overheads and the preparation of submissions, monitoring the funding and acquittal of the funding. Project funding often builds up expectations and creates solutions to issues which cannot be sustained. Project funding obviously has benefits for State and Federal Governments as they facilitate favourable media announcements and allow new media announcements each time funding is announced. Core funding will not provide the same media opportunities but is more fundamental to the proper delivery of services.

### **Regional Co-operation**

The Councils of the Wimmera region co-operate in a number of areas including the provision of library services, economic development services and waste management planning. There appears to be little scope for systematic regional co-operation for other functions, although this happens from time to time on an adhoc basis in relation to employment of particular professionals, where one Local Government could not justify the full-time employment of a health surveyor, town planner or building surveyor.

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

### **Art Gallery Recurrent Funding**

The Horsham Regional Art Gallery is jointly funded by the Victorian State Government and the Horsham Rural City Council. The level of core funding from the Victorian State Government has not increased since 1990, when it was set at \$57,500 per annum and Council's contribution to operate was approximately \$40,000 per annum. Council's 2002/2003 budget prepared for the Art Gallery includes a State Government grant still at \$57,500 and includes a Council contribution of \$134,780.

The Victorian State Government, under various administrations, has significantly shifted the costs of running regional art galleries across Victoria from being a joint partnership between Government and Council. We have consistently submitted to the Victorian State Government that core funding from the State Government should be substantially increased and should also be indexed on an annual basis.

If the operating costs were jointly shared by State Government and Councils, they would equate to almost \$100,000 each annually. This shows that the Victorian Government over time since 1990 has shifted almost 100% of the cost from State Government to Local Government.

### **Library Services**

The Wimmera Regional Library Corporation is another example of where State Governments have passed on costs to Local Government. The library services have

traditionally been a joint funding by State Government and Councils. In 1985 the funding of the Wimmera Regional Library Corporation was 55% from the State Government and 45% from local Councils. In 2001 the funding proportions have altered significantly. The State Government now contributes 40% of the total library budget and Council now contributes 60% of the total library budget.

This is a significant shift in responsibilities for core funding of library services and all Councils find it extremely difficult to pick up the lack of contributions from State Government and give priority to funding this service in rural areas.

### **Waste Management**

The Horsham Rural City Council has faced an increase in waste management costs being garbage services, recycling services, tip management and waste disposal. These costs have gone from a total cost of \$700,000 in 1995/1996 to a total cost of \$1.4 million in 2002/2003. This is a doubling of the costs in this area over a seven year period. The Victorian State Government does not contribute to waste management costs of Council. However, the changes in regulatory regimes and the requirements of the Environment Protection Authority and Ecorecycle, make the operation of waste service more onerous for Councils and have shifted enormous cost burdens onto Councils to comply with State Government levies and requirements.