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The Secretary  
House of Representatives Economics, Finance and Public Administration Committee  
Parliament House  
CANBERRA ACT 2601

**Email:** [EFPA.Reps@aph.gov.au](mailto:EFPA.Reps@aph.gov.au)

Dear Secretary

### **COST SHIFTING INQUIRY**

Thankyou for the opportunity to provide a submission to the inquiry regarding the transfer of functional responsibility from State to Local Governments. I provide the following information on behalf of the Council of the City of Prospect, South Australia.

#### **1. Local Government's current roles and responsibilities.**

There is no doubt that the City of Prospect is providing many additional services today that were once undertaken by other spheres of government. In many cases, the City is better placed to perform additional responsibilities at a local level. However, it does not have a revenue base that can be increased to fund the additional services/responsibilities. A summary of the additional services and/or responsibilities that have been transferred to the City of Prospect from other spheres of government is provided in **Attachment A**.

Philosophically, City of Prospect believes that it should be responsible for the service delivery of many of the services as listed but it needs to receive appropriate funding support from the other spheres of government to be able to do so.

#### **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.**

The City of Prospect's financial position has declined considerably over recent years as a result of assuming greater responsibilities without a corresponding increase in its funding base. The table in **Attachment B** shows a comparison of Operating Revenue & Expenditure between 2001/02 and 1993/94. This table clearly demonstrates that over the past 8 years, the operating result has declined significantly - from a surplus of \$647,000 in 1993/94 to a deficit of \$311,900 in 2002/02.

In addition, the quantum of funding from other spheres of governments has not kept pace with expenditure levels. 'Operating Grants and Subsidies' from other spheres of government has only increased by \$232,000 over the last eight years and is now only contributing 8.9 % towards the cost of operations (compared to 11.4 % in 1993/94).

To fund the cost of the additional services/responsibilities, in the absence of a commensurate increase in funding support from other spheres of government, the City of Prospect has increased its rates revenue and reduced (proportionally) expenditure on infrastructure assets.

The City of Prospect has increased its rates revenue base by approximately \$2.9 million (or 58 percent) over the past eight years. The capacity to generate additional rate revenue has been assisted during this period by the property boom and the associated rise in property values. As the primary revenue source (municipal rates) is a slow growth tax, and as the City of Prospect is an established inner city area with no opportunity to expand or amalgamate with other Councils, the capacity to continue to generate an ever-increasing rate revenue base is limited. It is considered that rate-payers have a very limited capacity to absorb a level of rating above that which is currently being levied.

The summary of Revenue and Expenses by Function provided in **Attachment C** confirms that like many Councils, the City of Prospect has implicitly tended to reduce it's level of expenditure on infrastructure assets to fund additional services/responsibilities. After adjusting for expenditure capitalised in the Balance Sheet, expenditure on Infrastructure & Technical Services increased by approximately \$1.5 million (or 61 percent) over the last eight years, compared to expenditure on other services that increased by approximately \$2.0 million (or 70 percent).

When compared to the necessary long term expenditure requirements to maintain and renew its infrastructure, the current level of expenditure on infrastructure is grossly inadequate. The recent study of Council infrastructure ("A Wealth of Opportunities") commissioned by the S.A Local Government Association, estimated that South Australian Councils are under-funding infrastructure renewal by \$95 million per annum and that this gap will increase significantly over the next 25 years. The study suggests that all Councils should immediately double their expenditure for the next 3-5 years and increase this further thereafter.

In order to balance its recurrent operating results and to meet its long term financial commitment to infrastructure renewal, the City of Prospect needs to raise significantly more revenue (in the absence of further significant efficiency gains and assuming activity levels are not reduced). Clearly, with municipal rates revenue being its primary revenue source, this is unachievable. Financial support from the other spheres of government is the only way to bridge this gap.

### **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.**

There are many examples where local Councils have development regional and/or pooled resource sharing arrangements. For Councils like the City of Prospect that are relatively small, resource sharing is a necessity in delivering many services efficiently and effectively. Unlike many Councils who have amalgamated in recent years in order to obtain economies of scale, the City of Prospect was unable to amalgamate, despite a willingness to do so. However, the City of Prospect is actively involved in the Metropolitan Eastern Regional partnering arrangements to provide such services as Libraries and Environmental Health.

**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.**

It is considered the City of Prospect's position is covered under (1) above.

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

It is believed there is considerable scope to achieve rationalisation between the three (3) spheres of government and the City of Prospect would support any moves to do this.

**6. The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.**

The City of Prospect supports the main findings of the Commonwealth Grants Commission review in relation to the *Implications of Changes in Functions and Responsibilities*.-

In conclusion, the City of Prospect has taken on additional responsibilities over recent years in the form of new roles and responsibilities, either imposed by other spheres of government or as a direct result of responding to community demands. At the same time, there has been a decline (in relative terms) in funding support from the other spheres of government. It is considered that many of the new roles and responsibilities are appropriate in that the services can be delivered better at the local level. Whilst the City of Prospect is willing and able to provide additional services, it needs an appropriate level of financial support from the other spheres of government to be able to do so.

Please do not hesitate to contact me if you need any clarification of the City of Prospect's position, or if you require any further information.

Yours sincerely



**MICHAEL LLEWELLYN-SMITH**  
**CITY MANAGER**

## Attachment A

### Functions and Costs Transferred to City of Prospect by Other Governments

<b>TRANSPORT &amp; COMMUNICATIONS</b>	
Roads	Traffic management issues and the general increase in vehicle ownership and usage have dramatically increased the cost of road construction and maintenance.
Bus Shelters	Bus shelters were a State responsibility. In the 1980s a joint funding program saw City of Prospect involved in contributing to the costs. State funding is no longer available and City of Prospect is left to respond to community demand re shelters. In cases where private companies do not fund supply and installation of shelters in order to generate advertising revenue, City of Prospect is left with the full cost.
Traffic Management in local streets	City of Prospect constructs physical devices to help manage local road traffic. This increases community expectations on Council to enforce traffic laws despite not having responsibility to police traffic laws.
<b>HOUSING &amp; COMMUNITY SERVICES</b>	
Town Planning	In the late 1960's, City of Prospect picked up Town Planning responsibilities - this was largely negotiated and application fees provided some limited additional resourcing – the complexity, volume of issues and particularly the strategic functions continue to expand, however the application fees barely cover the approval processing.
Development Act	<p>City of Prospect now must review its Development Plans every 3 years instead of every 7 years.</p> <p>The roles, responsibilities and administrative duties of Council have increased, for example:</p> <ul style="list-style-type: none"> <li>• The introduction of mandatory notification and inspections of building works.</li> <li>• Reduction in the type and range of applications determined by the Development Assessment Commission.</li> <li>• Significant tree legislation. This is an example where Council has embraced legislation as apposed to responsibilities being specifically given to it or as a result of Governments “stepping back” from providing a service. Funds from application fees are insufficient to recover Council costs.</li> </ul>
Environmental Management	The new Local Government Act 1999 requires City of Prospect to now undertake a greater range of policy, strategy, reporting, and operational activities regarding environmental and natural resource management. This requires newly developed and resourced programs and projects regarding both new issues of general consideration such as energy and water conservation, or wetland management - as well as greatly expanded or refined versions of traditional activities. It is not just a case of Local Government taking on roles or responsibilities that have been previously

<p>Environmental Protection and Noise</p> <p>Waste Management and Resource Recovery</p> <p>Stormwater - CMSS</p> <p>Water Catchment Boards</p> <p>PLEC</p> <p>Overhead Power Cables</p>	<p>State Government but that this devolution has also been occurring in the context of a dramatic expansion in the scope, awareness and community expectations regarding these activities.</p> <p>The EPA does not provide resources for low-level environmental harm or nuisance issues, including noise complaints. This places pressure on City of Prospect to undertake this role, without resources or with only short term funding arrangements.</p> <p>Increased responsibilities and higher standards imposed by the EPA on waste management and landfill sites incur significant capital and operational expenditure.</p> <p>State funding for the Catchment Management Subsidy Scheme (CMSS) has been cut back requiring a greater contribution from Councils towards stormwater mitigation.</p> <p>Water Catchment Boards have installed trash racks and then asked Councils to maintain them in the long term.</p> <p>Support for the Power Line Under grounding (PLEC) scheme has been reduced with Councils required to meet increasing costs to underground power lines</p> <p>City of Prospect must fund the cost to trim street trees around overhead power cables to ensure community expectations/standards are met.</p>
<p><b>HEALTH &amp; WELFARE</b></p>	
<p>Supported Residential Facilities</p> <p>Aged Care</p> <p>Senior Citizens Centres</p> <p>Health Inspections</p>	<p>The new Supported Residential Facilities Act introduced in 1996 has increased the roles and costs for City of Prospect who is now responsible for resourcing the assessment, inspection, and administration often with court costs involved. City of Prospect was reassured that this would be cost neutral however income from license fees is insufficient.</p> <p>City of Prospect is contributing significant resources to the cost of providing aged care services due to Commonwealth funding limitations. In 2001/02, City of Prospect received \$70,000 in HACC funding and provided in excess of \$70,000 in kind support.</p> <p>Were built or transferred to Councils in the 1960s and 1970s with heavy Commonwealth and State funding. Now there is no funding assistance for maintenance or replacement.</p> <p>The advent of diseases such as Legionnaires Disease has triggered a requirement for Council inspection of cooling towers – as a result of the Public and Environmental Health Act. No resourcing is provided to City of Prospect for this work.</p>

<p>Food Act</p> <p>Disability Discrimination Act</p>	<p>New Food Act proclaimed without assurances for Local Government that the additional workloads for EHO's can be funded through user pays charges or like fees. Most Councils supported Annual License / registration fees for Food Businesses yet State Govt. were not supportive.</p> <p>City of Prospect is required to develop and implement a 10-year plan to ensure public buildings and facilities comply with the Federal DDA standards.</p>
<p><b>RECREATION &amp; CULTURE</b></p>	
<p>Recreation</p> <p>State Government Surplus Land Sales</p> <p>Libraries</p> <p>Native Title</p>	<p>Recreation funding from the State and Commonwealth for local clubs has reduced and/or been focused on major sport or State/National facilities. A sizable contribution is made by City of Prospect to local recreation or sporting facilities and clubs. Often the State provides small grants to sporting groups to establish or expand clubrooms on Council property with ongoing implications, particularly in the event of club failure, falling to Councils.</p> <p>Councils are required to purchase significant/important land surplus to the needs of the State Government at full market value, eg schools, open space. Previously this was transferred to Councils for community purposes at a notional value.</p> <p>In the 1970s Councils took on library management and development as part of a well-supported Library Development Program in SA. Communities and Councils have supported it strongly. Whilst significant funding and support is still provided to Libraries by the State Government, City of Prospect is ever increasing it's contribution and funding of Library Services.</p> <p>City of Prospect is required under the Native Title Act (Cwth) to ensure audit of properties to ascertain non-extinguishment and development of appropriate administration regimes and protocols. This also requires major consultation with the local indigenous and non-indigenous community.</p>

<b>GENERAL PUBLIC SERVICES</b>	
Tax collection	Councils are required to collect revenue/levy for Catchment Water Boards. This saves the State Government a large amount of money.
Postal Voting	Mandatory postal voting introduced in 2000 has increased the cost of Council elections.
Rates	Quarterly rate billing has increased the cost of rate collection
Consultation	The new LG Act 1999 has introduced compulsory community consultation on a broad range of Councils functions and this is a very resource intensive exercise if it is to be useful.
Taxation	The GST has required Local Government (from 1 July 2000) to implement taxation administration systems on behalf of the Commonwealth Govt. The cost of compliance is significant, including negative cash flow implications.
FAGS	Quarterly payment of FAGS and Local Road grants, which were previously paid annually up front, has cost Councils income from investment.
<b>PUBLIC ORDER &amp; SAFETY</b>	
Crime Prevention	Increased demand and expectation placed on City of Prospect to lead this area, including management of graffiti. However, funding from Attorney Generals to City of Prospect has been inequitable. This is expected to get worse following the 2002/03 State Budget announcement that Local government Crime Prevention funding has been cut from \$1.4 million to \$600,000.
Dog Management	City of Prospect was led to believe that dog registration fees and other income was to cover the costs to administer the legislation, however City of Prospect recovers only 75% of the costs. The State Government has recently declined Local Government's request to increase fees.

## Attachment B

### Comparison of Operating Result – 1993/94 to 2001/02

<b>OPERATING REVENUE</b>	<b>1993/94</b>	<b>2001/02</b>	<b>Percentage Variance</b>
Rates	4,980,882	7,884,300	58.29%
Statutory charges	158,495	138,500	-12.62%
User charges	110,322	155,200	40.68%
Operating grants and subsidies	631,034	863,000	36.76%
Investment income	101,346	70,000	-30.93%
Reimbursements	74,158	112,550	51.77%
Gain on disposal of Non-Current Assets	38,001	9,287	-75.56%
Other	89,636	26,600	-70.32%
<b>TOTAL OPERATING REVENUE</b>	<b>6,183,874</b>	<b>9,259,437</b>	<b>49.74%</b>
<b>OPERATING EXPENSES</b>			
Employee Costs	2,260,291	3,223,384	42.61%
Contractual services	931,773	2,159,829	131.80%
Materials	737,461	554,262	-24.84%
Finance Charges	389,351	139,300	-64.22%
Depreciation	176,155	1,911,056	984.87%
Loss on Disposal of Non-Current Assts	0	174,083	100.00%
Other	1,041,560	1,474,025	41.52%
<b>TOTAL OPERATING EXPENSES</b>	<b>5,536,591</b>	<b>9,635,939</b>	<b>74.04%</b>
<b>Operating Surplus/(Deficit) before Capital Revenues</b>	<b>647,283</b>	<b>(376,502)</b>	<b>-158.17%</b>
<b>CAPITAL REVENUES</b>			
Capital grants, subsidies, monetary contributions	0	0	0.00%
Physical resources received free of charge	0	64,600	100.00%
<b>Operating Surplus/(Deficit) after Capital Revenues and before Extraordinary items</b>	<b>647,283</b>	<b>(311,902)</b>	<b>-148.19%</b>
Extraordinary Items			
<b>Net Surplus/(Deficit) resulting from Operations</b>	<b>647,283</b>	<b>(311,902)</b>	<b>-148.19%</b>



## Attachment C

### City of Prospect - Cost Inquiry Submission

#### Revenue and Expenses - Attributed by Function

	Planning & Environment Services			Infrastructure & Technical Services			Community & Recreational Services			Finance & Admin Services			Total		
	1994 \$ '000	2002 \$ '000	Variance %	1994 \$ '000	2002 \$ '000	Variance %	1994 \$ '000	2002 \$ '000	Variance %	1994 \$ '000	2002 \$ '000	Variance %	1994 \$ '000	2002 \$ '000	Variance %
<b>Expenses</b>															
General	780	882	13.1	2535	2904	14.6	589	1693	187.4	1457	2244	54.0	5361	7723	44.1
Depreciation				176	1912	986.4							176	1912	986.4
<b>Total</b>	<b>780</b>	<b>882</b>	<b>13.1</b>	<b>2711</b>	<b>4816</b>	<b>77.6</b>	<b>589</b>	<b>1693</b>	<b>187.4</b>	<b>1457</b>	<b>2244</b>	<b>54.0</b>	<b>5537</b>	<b>9635</b>	<b>74.0</b>
<b>Revenues:</b>															
Grants	88	58	-34.1	104	267	156.7	70	250	257.1	369	289	-21.7	631	864	36.9
Other	130	169	30.0	216	148	-31.5	45	187	315.6	5162	7891	52.9	5553	8395	51.2
<b>Total</b>	<b>218</b>	<b>227</b>	<b>4.1</b>	<b>320</b>	<b>415</b>	<b>29.7</b>	<b>115</b>	<b>437</b>	<b>280.0</b>	<b>5531</b>	<b>8180</b>	<b>47.9</b>	<b>6184</b>	<b>9259</b>	<b>49.7</b>
<b>Change in Net Assets Resulting from Operations</b>													<b>647</b>	<b>-376</b>	<b>-158.1</b>

**Notes:-**

1: Accounting procedures for Capital Expenditure and Depreciation have changed between 1993/94 and 2001/02 making direct comparisons ambiguous. Grater amounts of expenditure are now capitalised in.

Balance Sheet as opposed to expensed. In addition to the I&TS expenses listed above, Prospect capitalised approximately \$1.2 million of expenditure in 2001/02.

2: 2001/02 figures are unaudited at time of submission.

3: All depreciation is reflected against Infrastructure & Technical Services as majority of depreciation relates to infrastructure assets and depot motor vehicles.