

MOORABOOL SHIRE COUNCIL

SUBMISSION TO

**The House of Representatives Standing Committee
on Economics, Finance and Public Administration**

Inquiry into

**Cost Shifting onto
Local Government**

Executive Summary

As with other Local Government entities Moorabool Shire Council is the focal point of our communities - for direct service delivery, advocacy and engagement about their frustration's and desires for services from Government as a whole. We are recognised by our communities as the tier of Government which they can readily identify with and connect to.

The demand on the Council to improve the delivery of services to a growing rural community is unrelenting. This demand is not aided by the continuing refusal of both Federal and State Governments to recognise Local Government as constitutionally valid tier of government and fund it accordingly. Rather Local Government remains an instrument of the State, one to be dealt with through special purpose granting relationships and outdated grant commission funding models that are at the core of cost shifting to Local Government.

Consequently Council's are forced to meet this burden either through the reduction of services, or by maintaining services through an ever increasing reliance on outdated property valuation taxing models to raise the necessary funding from local communities. These same communities are already burdened by taxation flows to both Federal and State Governments with little improvement in the return of these taxation flows to local communities through enhanced funding to their Local Government body.

Our review of cost shifting issues and impacts on our community indicate that:

- cost shifting has added an addition \$1.2 million in operating costs to Council to address increased regulation, accountability and special purpose program funding applications related to Federal and State Government policy initiatives.
- according to MAV cost shifting report 1991 significant additional program costs have been forced onto Council's as a result of reduced special purpose grant funding, and failure to fund CPI cost and demand impacts on program budgets (refer Appendix 5).
- CCT/State Government Rationalisation policy put Councils in a position of reducing services to levels below demand that are still impacting on service delivery.

To alleviate these impacts Council recommends:

- That Federal and State Governments consider cost impacts of regulation on Local Government as the service delivery arm and provide funding to offset these impacts.
- That special purpose grant funding be increased to reflect cost of services arising from CPI and demand impacts.
- That more effective means of funding new initiatives be adopted including:
 - increases to Grants Commission funding to reduce program administration costs and enable Councils to apply new initiatives in a flexible way to meet local strategies (example Roads to Recovery).
 - access to more secure sources of revenue, in particular a share of GST revenue which is provided to State Governments without a tied commitment to share this revenue with the Local Government sector.
- That funding be provided to Councils through increased Grants Commission Funding to enable Councils to meet continuous improvement program cost structures.

With respect to addressing matters through Grants Commission Funding council recommends the State Government review the level of funding to Metropolitan and Regional Councils to provide additional funding to rural communities and thus achieve the desired outcome of fiscal neutrality.

1. Overview

1.1 About Moorabool

Moorabool Shire Council is a large rural council with a municipal district covering over 2000sq km. It stretches from outer reaches of metropolitan Melbourne 40km west of the city to the eastern fringe of Ballarat in Victoria's central highlands. With a population of over 23500 we are made up of over 20 different communities.

1.2 Current Roles and Responsibilities:

Council currently provides 49 services which are delivered either directly by Council or in partnership with Federal and State Governments. Appendix 2 sets out the current services provided by Council and their relationship to federal/state government programs.

1.3 Financial Capacity

Council has worked diligently to improve its financial position. However we are at a point of exhaustion of local rating capability to continue to absorb cost shifting impacts and enhance community services.

Appendix 3 shows the Council's financial position from amalgamation in 1996 to our current budget forecasts.

Our position can be summarised as follows:

- Revenue
 - heavily reliant on rates and charges
 - most of this is drawn from residential customer rates
 - new rating charges are being developed to charge industries, vacant land and farming subsidies to balance rating impost across the community.
- Expenditure
 - demand for improved services will see costs increase by around 4% p.a.
 - only meeting 60% of infrastructure funding requirements therefore heavily dependent on special purpose capital grant programs.
- Operating Surplus
 - only 1% of revenue is available to invest in improving community infrastructure and services.
- Capital Works
 - Council is dependent on special purpose capital grants to maintain and develop community infrastructure.
- Financing
 - Council will be dependent on borrowings to fund the development of community infrastructure to meet service demands. This will be limited to 10% of revenue to ensure Council is not overburdening the community and as such, is a finite source of capital.

2. Cost Shifting - Issues and Impacts

Cost shifting is a broad concept. In our view, cost shifting relates to those issues that are required to be addressed by Council as a result of:

1. Increased regulation by Federal or State Government that directly affect services provided by Council.
2. Increased accountability of local Government resulting from amalgamations and new standards of governance.
3. Actual reductions in program funding as a Federal or State level that Councils are required to accommodate to ensure continuing services to the community.
4. Federal/State special purpose grant funding initiatives that require Council to apply for revenue on a case by case basis therefore requiring additional resources to meet grant application costs.
5. The impact of CCT/State Government directed rationalisation.

In summary, the cost shifting has cost council an additional \$1.2 million in operating costs. This represents 13.95% of our current rating structure. The issues that have caused this significant impost are set out in Section 2.2 below.

Appendix 2 outlines the impacts of these various cost shifting issues. The assessment is not a detailed audit of actual impacts but rather an assessment at a service level of resources that the Council has had to apply to address the above issues.

2.1. Increased Regulation

Increased regulation of Council services by both Federal and State Governments significant impact on Council. Over the past 2-3 years the following impacts have been identified.

		% rate	
		\$000	income
2.1a.	2 yearly revaluations - additional annual cost	45	
2.1b.	Introduction of GST - transaction processing costs	25	
2.1c.	Best Value Legislation - cost of service reviews	75	
2.1d.	Introduction of Privacy and FOI legislation	25	
2.1e.	Introduction of State Planning Scheme	110	
2.1f.	Introduction of Local Laws to affect good governance	20	
2.1g.	Building Regulations - Pool Safety	30	
2.1h.	Increased regulation of Family Services	40	
2.1i.	Increased regulation of Environmental Health	40	
2.1j.	Increased management costs to support above issues.	<u>100</u>	
	Cost Impact	<u>510</u>	5.9%

Recommendation:

That Federal and State Governments consider cost impacts of regulation on Local Government as the service delivery arm and provide funding to offset these impacts.

2.2 Increased Accountability:

Following amalgamations Local Government has been subject to increased accountability in the governance of the Council and in the reporting requirements necessary to account Council's operations to the community and stakeholders. This increase in accountability has resulted in the following impacts:

	% rate	
	\$000	income
2.2a. Governance Framework - Policy Committees and Audit Committee	25	
2.2b. Increased role of Council and Council Support Office	50	
2.2c. Increased Financial Performance Reporting - Accounting Services	50	
2.2d. Increased Community Consultation/Public Relations and new service channels (i.e. internet)	50	
2.2e. Increased Risk Management and Insurance costs - insurance crisis	60	
2.2f. Increased accountability for Human Service Programs requiring additional management (Aged Care, Family and Child Services)	50	
2.2g. Increased asset management and contract performance management	<u>80</u>	
Cost Impact	<u>365</u>	4.2%

Recommendation:

That Federal and State Governments consider cost impacts of regulation on Local Government as the service delivery arm and provide funding to offset these impacts.

2.3. Reduced funding - no direct costs identified as this matter is addressed through MAV submission (refer appendix 3 - MAV Cost Shifting Report 2001).

Appendix 5 contains a report compiled by MAV in 2001 that identifies cost shifting impacts on Local Government resulting from changes in special purpose grant funding and failure to adequately index funding for CPI and demand. While not costed in this report the impacts on Council would be consistent with the observation made by the MAV.

Recommendation:

That special purpose grant funding be increased to reflect cost of services arising from CPI and demand impacts.

2.4. Specific Program Funding Issues:

Councils are bound to incur additional resources costs necessary to enable the Council to manage and develop programs, strategies and grant applications to obtain special purpose program based grant initiatives of both Federal and State Governments. Special impacts over the past few years include:

	% rate	
	\$000	income
2.4a. Additional program Management Costs (Shire Development/Human Services)	100	
2.4b. Additional Resources to meet Program Funding Initiatives		
- Business Facilitation	70	
- Community Development support and increased community grants program to provide local committees of management with funding to match grant applications.	50	
- Recreation Service Officer to support program applications	40	
- Environment programs	45	
- Land Use Planning	<u>20</u>	
Cost Impact	<u>325</u>	2.6%

Recommendation:

That more effective means of funding new initiatives be adopted including:

- increases to Grants Commission funding to reduce program administration costs and enable Councils to apply new initiatives in a flexible way to meet local strategies (example Roads to Recovery).
- access to more secure sources of revenue, in particular a share of GST revenue.

2.5. Impact of CCT/State Government Rationalisation Programs

One of the most significant impacts imposed by State Government on Local Government was the introduction of CCT and the State Governments impost 20% rate reduction in 1997.

This particular State Government policy initiative resulted in:

- fragmentation of organisation structures into client/provider splits which separated organisation integration are reduced organisation performance and service flexibility;
- a reduction of services to meet lower funding levels which resulting in service demands not being delivered and service backlogs.
- reduced capacity to address service delivery in particular infrastructure funding.

The move to Best Value processes in 1999, while empowering Councils, has had to be developed of this reduced capacity base. There has been no financial support from the State Government to address this matter on a long-term committed funding strategy. Rather State Government continues to provide special purpose capital works grants which require additional effort by Council's to this attract adhoc funding and to meet associated increased service operating costs.

Recommendation:

That funding be provided to Councils through increased Grants Commission Funding to enable Councils to meet continuous improvement program cost structures.

3. Grants Commission Funding

As indicated in Section 2 funding to Councils through the grants commission is a critical source of funding that can be used to alleviate cost shifting burdens.

Appendix 6 contains the report made by the Council to the Victorian Grants Commission in February 2002.

Our recommendations to the Victorian Grants Commission are submitted as part of this report.

"We request that the Commission give due consideration to these matters as outlined in this report and:

- Review the level of funding to Metropolitan and Regional Councils to provide additional funding to rural communities and thus achieve the desired outcome of fiscal neutrality;*
- Review Moorabool's allocation to increase it by a minimum of \$500,000 to provide parity with our benchmark group of rural councils with populations 20,000 to 30,000.*

This additional revenue will provide Moorabool with the resources to address:

- Infrastructure Development Funding necessary for the improvement of our commercial, cultural and recreational infrastructure to a level required to service our growing community;*
- Business development services necessary to improve the level of business conducted within our community - in particular the development of our tourism industry and micro/small business service sector;*
- Human service deficiencies for our pre-school, youth and aged care services that have lagged behind the growth of our community and the withdrawal of services to regional and metropolitan centres that do not service our broad spread of communities."*

Appendix 1 – Inquiry announcement and Terms of Reference

On 18 June 2002 the Committee resolved to inquire into local government and cost shifting as referred by the Hon. Wilson Tuckey MP, Minister for Regional Services, Territories and Local Government.

The inquiry was advertised in all national papers on 8 June 2002. Closing date for submissions is Friday, 26 July 2002.

Please forward submissions to the Committee Secretariat by email or by post to:

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

Terms of reference

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

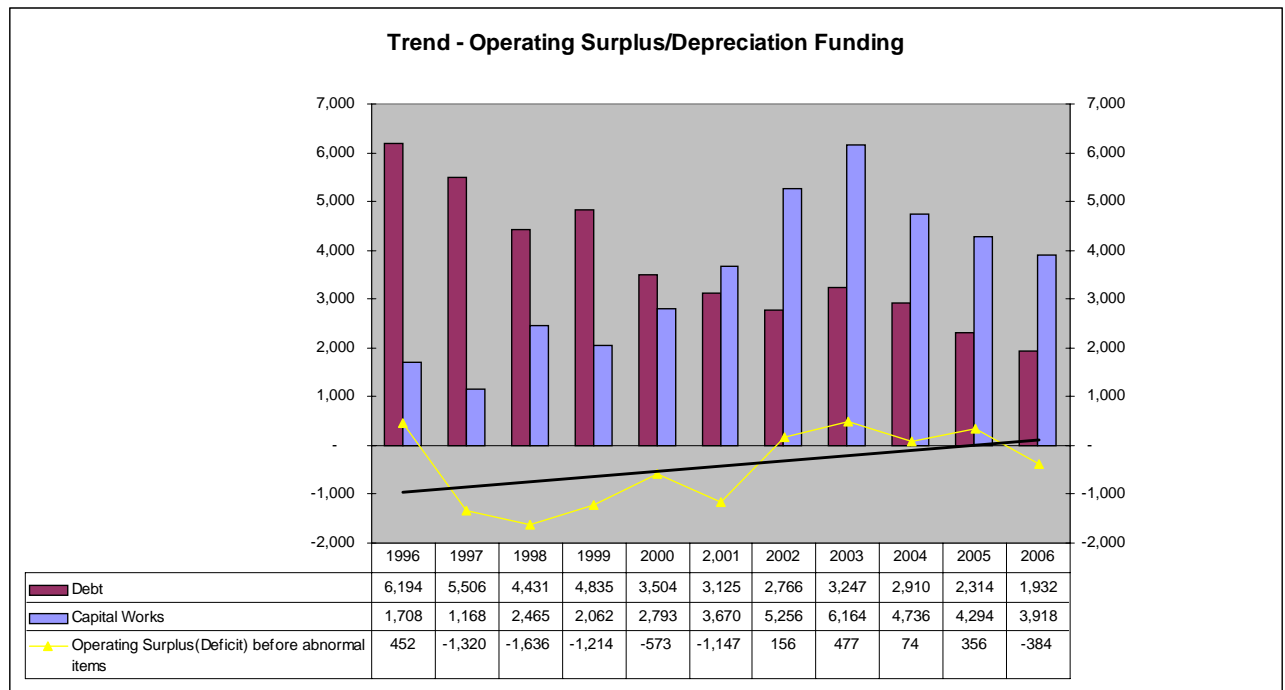
1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations 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.
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.
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.
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.

Appendix 2 – Inquiry announcement and Terms of Reference

Service Area/Services	MSC	Federal	State
Governance Services			
Council and Committee Services	✓		
CEO Office	✓		
Mayors Office	✓		
Financial Management and Accounting Operations	✓		
Revenue Collection	✓		
Transaction Processing	✓		
Customer Service/Relations	✓		
Governance/Legal/FOI/Privacy	✓		
Corporate Services Directorate Management	✓		
Special Projects	✓	✓	✓
Human Resource Management	✓		
Information Systems	✓		
Records	✓		
Risk Management	✓		
Best Value Reviews	✓		
Infrastructure Services			
Infrastructure Services Directorate Management	✓		
Asset Management, Design & Surveying	✓		
Contract Performance Management	✓		
Special Projects	✓	✓	✓
Subdivision Infrastructure	✓		
Emergency Management	✓	✓	✓
Plant and Fleet Management	✓		
Road and Facility Construction and Management	✓	✓	✓
Community Infrastructure Construction and Maintenance	✓	✓	✓
Waste Management	✓		✓
Shire Development Services			
Shire Development Directorate Management	✓		
Special Projects	✓	✓	✓
Local Laws Compliance & Fire Prevention	✓		✓
Building Services	✓		✓
Environment Management and Programs	✓	✓	✓
Land Use and Development Planning	✓		✓
Town Planning	✓		✓
Human Services			
Human Services Directorate Management	✓		
Community Development and Committees of Management Support	✓	✓	✓
Family Day Care	✓	✓	
Maternal & Child Health	✓		
Occasional Care	✓	✓	
Recreation Facilities	✓		✓
Social Services Management	✓		
Youth Services	✓		✓
Environmental Health Services	✓		✓
Aged & Disability Services	✓	✓	

Appendix 3 Financial Performance of Council

The attached financial performance graph shows the progression in Council's financial position with respect to operating surplus, debt management and capital works.



Moorabool Shire Council											
Operating Results											
	Annual Reports						Projections				
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenue											
Rates	5,955	4,266	5,966	6,438	7,178	7,764	8,216	8,767	8,993	9,430	9,803
Fees	1,414	1,297	967	1,719	1,850	1,846	1,929	2,009	1,979	2,036	2,094
Grants	5,499	5,507	5,407	6,309	6,033	7,603	8,632	10,577	8,587	8,560	8,207
Interest	261	159	134	147	221	269	200	199	197	195	194
Other	1,146	609	480	1,139	1,214	1,099	984	969	731	734	736
	14,275	11,838	12,954	15,752	16,496	18,581	19,961	22,521	20,487	20,955	21,034
Expenses											
Employee	5,023	5,452	4,789	4,521	5,078	6,020	6,821	7,301	7,543	7,832	8,117
Materials	7,243	5,476	5,045	6,095	6,244	7,076	6,895	8,139	7,058	6,879	7,315
Interest	684	719	346	312	265	213	170	188	189	154	132
Other	230	275	462	2,021	1,654	1,395	1,199	2,338	1,404	1,407	1,411
	13,180	11,922	10,642	12,949	13,241	14,704	15,085	17,966	16,194	16,272	16,975
Operating Surplus(Deficit) before Depreciation	1,095	- 84	2,312	2,803	3,255	3,877	4,876	4,555	4,293	4,683	4,059
Depreciation	753	1,433	4,024	4,100	3,901	4,221	4,373	4,221	4,348	4,475	4,601
Operating Surplus(Deficit) after Depreciation	342	- 1,517	- 1,712	- 1,297	- 646	- 344	503	334	- 55	208	- 542
Asset Disposal	110	197	76	83	73	803	347	143	129	148	158
Abnormal Items	- 48	- 1,697	- 1,909		3,711		1,862				
Carry forward Grants							900	- 900			
Increase(Decrease) in Net assets	404	- 3,017	- 3,545	- 1,214	3,138	- 1,147	2,918	- 423	74	356	- 384
Casflow:											
Cash from Operations & Grants	1,724	81	2,490	3,265	3,255	3,335	4,876	4,555	4,293	4,683	4,059
Funds from investing activities *	259	1,045	4	- 835	-	-	-	-	-	-	-
Debt repayment	- 1,050	- 788	- 1,075	- 1,199	- 1,331	- 379	- 387	- 299	- 337	- 596	- 382
Funds available for Works	933	338	1,419	1,231	1,924	2,956	4,489	4,256	3,956	4,087	3,677
<i>(*note: assumes proceeds from sale of plant and equipment are reinvested in plant and equipment)</i>											

Appendix 4 - Cost Shifting Impacts

Services	Notes - Refer Section 2.	Cost shifting impact (\$000)		Program Funding	Total
		Increased Regulation	Increased Accountability		
Governance Services					
Council and Committee Services	2.2a		25		25
CEO Office					-
Mayors Office	2.2b		50		50
Corporate Services Directorate Management & Special Projects					-
Accounting Services			50		50
Revenue Services	2.2c	45			45
Transaction Processing	2.1a	25			25
Customer Service/Public Relations	2.1b		50		50
Human Resource Services	2.2b				-
IT Services					-
Records Services					-
Risk Management Services	2.2e		60		60
Best Value Review Services	2.1b	75			75
Legal/FOI/Privacy	2.1d	25			25
		170	235	-	405
Infrastructure Services					
Infrastructure Services Directorate Management & Special Projects					-
Asset Management, Design & Survey	2.2g		40		40
Contract Performance Management	2.2g		40		40
Subdivision Infrastructure					-
Emergency Management					-
Plant & Fleet Management					-
Road Construction & Mtce					-
Community Infrastructure Construction & Maintenance					-
Waste Management					-
		-	80	-	80
Shire Development Services					
Shire Development Services Directorate Management & Special Projects		50		50	100
Business Facilitation	2.1e/2.4a			70	70
Compliance & Fire Prevention					-
Building Services	2.1g	30			30
Local Laws	2.1e	20			20
Environmental Services				45	45
Land Use and Development Planning	2.1e	60		20	80
Town Planning	2.1e	50			50
		210	-	185	395
Human Services					
Human Services Directorate Management & Special projects	2.1h/ 2.2f/2.4a	50	50	50	150
Community Development & Committees of Management Support	2.4b			50	50
Family Day Care					-
Maternal & Child Health					-
Occasional Care	2.1h	40			40
Recreation Services	2.4b			40	40
Social Services Management					-
Youth Services					-
Environmental Health Services	2.1i	40			40
Aged & Disability Services					-
		130	50	140	320
		510	365	325	1,200

Appendix 5 - MAV Submission

Please find attached.

Appendix 6 - Submission to Grant Commission

Please see attached.