**Cost Shifting Affecting Dungog Shire**

## Introduction.

Dungog Shire is classified as a RAL Council with a population of 8,300 an area of 2,228 square kilometres, and a budget of approximately $10 million. Council is a water and sewerage authority. Some 22% of our total LGA area is controlled by NPWS and State Forests, which are exempt from paying rates. Dungog Shire is a growth area adjacent to Maitland, Singleton and Port Stephens LGA`s, and just over two hours drive from Sydney.

In 2002/03, Dungog Shire received an increase to its FAG of only .2% whereas the average rise for the electorate of Paterson was 5.35%. This caused Council and the community much concern because an important segment of its income continued to decline in the face of rising costs.

Since 1996/97, our grant has increased by a grand total of only 4.5%, or $64,631. In that same time period, total national FAG funding provided by the Federal Government has increased by 20%. The reason for this discrepancy is of course due to the role of fiscal equalisation played by the NSW Grants Commission, and our incompatibility with the FAG adjustment process generally.

Inflation has risen by about 9 % in that time, which means that our FAG has reduced in real terms against the CPI, which hardly reflects the main cost factors affecting Local Government anyway. The financial implications are serious, because we have not been reimbursed in 2002/03 for the situation that existed seven years previously, let alone compensated for the increased workload passed on by the other spheres of government.

Every cost facing councils has risen significantly and we are constantly receiving increased responsibilities without appropriate extra funding. Little wonder that we are "financially challenged". For 2002/03, Council`s general rates income was $2.7 million, and FAG of $1.5 million represented a significant proportion of income.

If we had received the increases intended by the federal government, our FAG would have risen by $200,000 in 2002/03 alone, and we would have received another $500,000 over the last six years. This would have made a huge difference to the finances of Dungog Shire Council over that period. Furthermore, there would have been an ongoing cumulative and compounding affect in future years.

In the period 1995-2002, the total revenue raised by the Commonwealth rose from $121.105 billion to $173.907 billion, or 43.6%. Since1995, State revenue has increased by 79%. These are staggering figures indeed, and from the perspective of Local Government, cost shifting has resulted in reduced expenditure of that revenue.

In NSW, the bi partisan rate pegging policy has limited the increases automatically approved by the Minister to 21%. Between 1995-2002, Dungog Shire increased its rate revenue by 27% including the 6% special rates rise in 1996.

For grant dependent councils, the impact upon their finances has been significant. In NSW, award wages have increased by 27.5 % between 1995 and 2002, which is 37%

greater than increases to the national FAG funding pool, and 31% greater than the rate pegging limit. National FAG has risen at less than half the rate of income increase experienced by the Federal Government, and at less 73% than the rate of increase in State revenue.

This situation paints a grim picture indeed, even before the impacts of cost shifting are considered.

## Examples of Cost Shifting.

### Regional Roads.

In 1995, as part of changes to the NSW Roads Act, the State Government added an extra 118 km length of roads to the care and control of Dungog Shire Council. Approximately107 km became regional roads, and Monkerai Road (11 km) became a local road. Previously, these were called "main roads" and were fully funded by the RTA for all aspects of maintenance and rebuilding. They are now called regional roads.

Incredibly, these roads were transferred without provision of an income source to meet the newly inherited responsibilities, which in Dungog Shire involved caring for about a 20% increase in total length of road. Each Council in NSW fared differently according to the total length and condition of regional roads being transferred, and no attempt was made to bring roads up to standard beforehand or achieve equity.

In Dungog Shire's case, they were generally worn out, or at best, in a substandard condition when transferred. To achieve a reasonable standard requires $16.8 million for the regional roads, and $2.4 million for Monkerai Road, in today's dollars. Under the present policy affecting these roads in NSW, Council is required to meet half the cost of rebuilding regional roads, and the State Government is supposed to meet the full cost of ongoing maintenance.

However, the method used by the RTA for calculating the Block Grant allocation results in this LGA receiving about 50% less per km p.a. than our neighbours, for maintenance of the very same roads, as they cross Shire boundaries. This same RTA funding priority results in about 95% of the length of regional roads in this LGA being ineligible for the State Government`s 50% of the cost of upgrading. These roads are simply rotting away under the deluge of coastal rainfall and reactive clay soils.

The transfer of main roads is the single most glaring instance of cost shifting affecting this LGA, involving over $10 million at face value. Moreover, Dungog Shire is one of only two LGA`s in NSW that does not have a state road (i.e. one that is fully funded by the RTA), but in terms of population size, we are about number107 out of the 172 LGAs. On this basis, with present road funding policies, we are not receiving our fair share of state revenue.

Road condition is the most important issue facing our community because. Regional Roads carry our heaviest traffic, and the community depends upon them for general transport, business, industry and tourism. The condition of these roads is greatly detracting from our potential economic development and participation in the regional economy. We have minimal access to public transport

Unfortunately, policies for funding and management of "main roads" varies significantly between the States, and stifles meaningful comparison. There appears to be significant disparity in the contribution of the States towards such regional infrastructure.

**Centre line Marking of Regional Roads.**

Prior to 1994, line marking was carried out at no cost to Councils. In that year, the RTA ceased line marking operations, and the State Government provided a Traffic Facilities Grant of $85,000 p.a. for this purpose for regional roads in Dungog Shire.

However, in 1997/98 a program of "rationalisation" was implemented to reduce this grant over four years to $18,000 in 2001/02. Typically, the cost of providing this service has increased over the last nine years, and it now requires over $120,000 p.a. to provide the level of service provided in 1994.

Council is supposed to somehow "find" an extra $102,000 p.a. from an ever-shrinking budget.

**NSW Rural Fire Service.**

The NSW 2002/03 Budget provided an increase in operating expenses of $9 million or 7.7%, taking expenditure from $117 million to $126 million. The rate pegging limit for that year was 3.3%, but Local Government was required to increase its contributions by 7.7%.

Between 1994 and 2002, Dungog Shire Council's contribution towards the RFS rose from $45,000 to $120,000 representing an increase of 166%, whilst Dungog Council's general rates income has increased by 27%.

At the same time, the level of Council control over the financing of RFS activities has fallen from 80% to 50%, representing the reduced proportion of the RFS budget allocated to provision of local services and equipment. RFS "overheads" rose 250% in that time, passing on the costs of managing an escalating Sydney based management structure. Although it must be acknowledged that vast improvements have been made within the RFS since the serious fires of 1994, Local Government has been forced to contribute beyond its means.

This situation is exacerbated by the requirement to determine RFS budget estimates in September of each year, some eight months before the exact nature of Council's income and other budget implications are known. Additionally, State Government Agencies like the RFS and NSW Fire Brigade are not subject to limits such as rate pegging in regard to charges passed on to council. These financial implications are simply unsustainable.

(Similarly, in 2002-03 the NSW Fire Brigade budget increased by $38 million or 11.5% taking expenditure from $327.3 million to $365 million. Dungog Shire was required to increase its annual contribution by 14% for 2002-03)

**Environmental Issues.**

The plethora of new or expanded legislation affecting environmental and planning aspects in NSW has seen numerous requirements burdened upon Local Government. Many responsibilities have devolved from individual Government Authorities without a whole of government approach, with the result that they have little idea of the cumulative impact. Some of these initiatives have originated from the Federal Government i.e. threatened species and biodiversity.

Councils are becoming a major regulator in most of the expanding environmental areas. Due to the significance of the escalating workload involved, Dungog Shire has employed a new management position to oversee these initiatives. This expansion in workload is directly attributable to cost shifting.

**Hunter Catchment "Blueprint".**

Local Government has been identified in 29 of the 50 actions as the responsible or supporting authority to oversee environmental improvements to the Hunter Catchment. The majority of actions identified will require additional commitment by Councils. In most cases this commitment extends beyond development and implementation of the actions to ongoing monitoring, enforcement and administration, without adequate and ongoing funding and regional support.

**Dungog Landfill.**

Dungog Landfill is below the threshold for its annual volume of waste received to require licencing with the EPA. But, because it is located in the Williams River Catchment, which is part of the Newcastle water supply, it is considered an environmentally sensitive area, requiring a licence at a cost of $3040 annually.

Council allocated $13,000 to meet EPA reporting requirements for 2002/2003. This covered quarterly groundwater and leachate analysis, volumetric analysis and a report reviewing the last two year`s testing program as required under the licence conditions. Council has spent around $10,000 in the last three years installing and upgrading the leachate irrigation system, and $80,000 is the forecast requirement for new leachate and sediment control collection and dams in 2003/2004.

These requirements arise because the Williams River is a drinking water supply for the Lower Hunter. This LGA is in effect subsidising the provision of drinking water for the Region. This is cost shifting from a State Corporation, which is supposed to meet the full cost of providing water to its customers.

**Rateable Area.**

The issue of 22% of the area of this LGA being exempt from paying general council rates. Many small rural communities are thus being required to subsidise the provision of National Parks and State Forests for the wider community. This constitutes cost shifting, and is clearly inequitable.

There is absolutely no consideration of this factor in federal/state assessment and comparisons of Local Government. A 22% loss of rateable land represents a 22% loss of income potential for this LGA. The State Government actually rates the financial performance and liquidity of councils without considering the associated impact upon income of providing and maintaining infrastructure to service these areas.

Dungog Shire recently missed out on approximately $1.2 million from the State Government for a rain forest “sky way” because of the substandard condition of the local road servicing the facility! We were effectively penalised twice.

**National Competition Policy.**

In NSW, there has been no flow-on to Local Government of the substantial compensation payments for implementing the NCP. Local Government faces increased costs directly associated with NCP. However, this has been accomplished in Queensland, Victoria and South Australia.

**“At The Crossroads” discussion Paper.**

The discussion paper acknowledges the following issues:

*The roles of Local Government are most definitely increasing in the face of reducing income.
*Local Government in regional areas is increasingly being asked to fill the gaps in community services left by the retreating of the other spheres of government.
*Local Government is already financially challenged by the present funding arrangements without being burdened with ongoing cost shifting and unfunded mandates.
*Existing services are being curtailed to meet new responsibilities for unfunded mandates.
*Local Government has limited ability to raise revenue to meet its increased roles.
*There is wide difference between the majority of smaller councils and metropolitan councils.
*There is a need for changes.

The terms of the parliamentary inquiry set the condition that measures to address cost shifting must be revenue neutral to the Commonwealth, yet they are involved in cost shifting, and FAG funding has reduced in real terms against every measure of revenue from GDP to total receipts. Since 1995, Commonwealth revenue from all sources has increased by 43% whereas the FAG has increased by only 20%. This matter needs to be redressed by the commonwealth itself.

The discussion paper states that throughout Australia, Local Government is by its very nature quite diverse. What is not acknowledged is that the lack of a common system between States is a major stumbling block in the comparison and understanding of this and other very complex problems. The fact that Local Government is borne of the States individually ensures that standardisation does not occur. This factor alone is an important reason for supporting constitutional recognition of Local Government.

Local Government needs clearly defined roles and responsibilities, which would provide the necessary standardisation and oblige the States to follow set guidelines rather than making things up as they go along!

To suggest that Local Government can overcome the many difficulties and unsustainable financial pressures using a self help approach is somewhat optimistic. The discussion paper acknowledges that local government has made significant advance in professionalism over the last ten years. We need much more than the self help approach to overcome unsustainable financial arrangements when it is our political masters who control the funding, and our activities.

**Discussion Paper Options Section Four.**

The wide diversity and lack of standardisation of Local Government exacerbates some of the options suggested in section 4 of the discussion paper, such as options 3&4, which require comparisons between the states.

However, all options listed in section four have obvious merit with the exception of the cost implications of option 9, which requires perhaps .5% of FAG to fund a national capacity building agency. This money should not be sourced from the Commonwealth rather than cash strapped councils.

The means by which Local Government is funded is not addressing the growing difference between regional and metropolitan areas. There is definitely a need to redirect limited FAG funding to regional areas. It needs to be recognised that “Roads to Recovery Funding” is a direct proportion of the FAG local roads component. Consideration needs to be given to the differing needs of regional and metropolitan areas, and in particular the role of Local Government in economic development.

The “Roads to Recovery” Program would need to be continued for 56 years to get around our network of local roads, which with our wetter climate and reactive clay soils, have an expected life of 30 years. Of course this program needs to continue indefinitely. The direct linkage between the Federal and Local Governments with this beneficial program has proven highly successful, and there is little doubt that the funding has been correctly and responsibly targeted.

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30.5.03