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24 July 2002

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

Submission No: 146

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Secretary: Barclay



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

Dear Sir/Madam

SUBMISSION TO INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING

This submission by the Swan Hill Rural City Council to the inquiry is based on the cost shifting that has occurred from the Commonwealth to this Municipality, and the increased burden faced by our local community as a result.

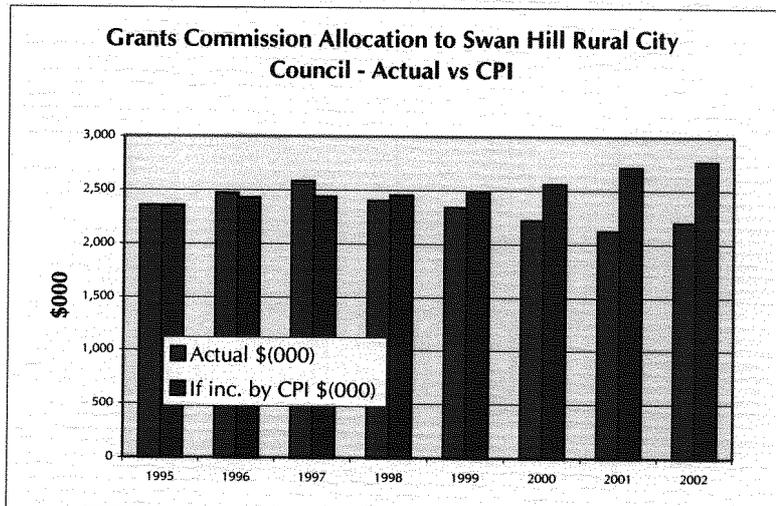
In developing this submission, Council is cognisant of the fact that the majority of funding from the Government sector for services delivered by Local Government in Victoria is from the State Government. Whilst there has been significant cost shifting from the State government to the Local government sector, this is a State, rather than a Federal issue, and as a result this submission focuses on the funding received from the Federal Arena.

Grants Commission Allocation

The Federal Government annually provides funding to the states for allocation to Local Government. Each state's Grants Commission determines the allocation of the funding to each municipality based on a number of parameters. The Swan Hill Rural City Council has

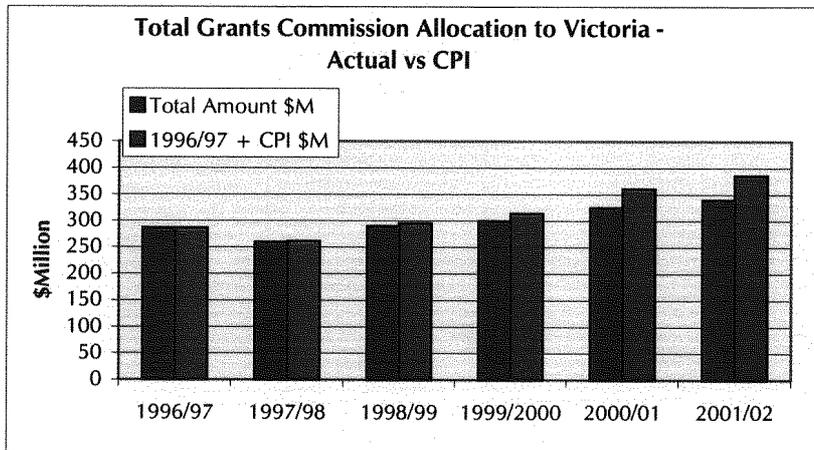
experienced a reduction in its annual allocation of \$154,000 since 1995, which, when inflation is considered, translates to a reduction in real terms of \$433,000. This is equal to a rate increase of 4.7% (or 5.7% on 1995 rates). Hence the reduction in Grants Commission

allocation for the Swan Hill Rural City Council community has resulted in an increase of \$44.00 in the rates of each ratepayer.



The reduction in funding may be attributable to the method used by the Victorian Grants Commission in determining the grant for the Swan Hill Rural City Council.

However, information received from the Victorian Grants Commission indicates that the Federal Grant allocation to Victoria has also decreased in real terms. The



graph shows that if the Federal allocation to Victoria had kept up with inflation, the amount available to Local Government in Victoria would be \$49.07 Million more than the \$338.982 Million provided for the 2002/2003 financial year. Assuming that this

amount would have been evenly distributed to the 78 Victorian Councils, this represents an amount of \$0.629 Million, or an equivalent of a 7.2% rate rise (or an amount of \$68.00 per rate assessment) for our community.

Roads to Recovery Funding

A significant positive initiative by the Federal Government in recent years has been the creation of the Roads to Recovery program. The funding received by Local Government under this initiative goes some way towards meeting the significant infrastructure gap that exists between the cost to replace road, drainage and other infrastructure as required, and the ability of the local community to pay for the replacement.

For Swan Hill Rural City Council, the injection of \$2.77 Million over four years goes some way towards addressing the gap. However, such funding is required into the long-term, and not just for a four-year period. The infrastructure in most cases was created with funding from both the State and the Commonwealth, and the burden of replacement and renewal of those assets should be similarly shared.

Total Funding

Approximately 29% of the income received by the Swan Hill Rural City Council is from either the State or the Federal Governments. This is a reduction from 33.49% in 1997/98. This represents a reduction of \$817,000 in income for the municipality, which translates to a rate increase to our community of 9.5% (or \$90.00 per rate assessment).

The details of the majority of the grant funding received by the Swan Hill Rural City Council, and the impact of cost shifting over the four year period between 1997/98 and 2000/2001 was subject to a report to Council in July 2001. A copy of this report is attached for your information, and to support this submission.

In this submission I have concentrated on the cost shifting that has occurred at this municipality as a result of the reduction of funding from the Federal and State Governments, and the implication to our community. This submission has not addressed issues associated with changes in the responsibilities of Local Government in Victoria, nor of this Council's ability to take a broader role in a number of areas. Others, including the Municipal Association of Victoria, will adequately address these issues, including the achievement of regional objectives.

I would like to thank you for the opportunity to provide information to the Federal Cost Shifting Inquiry. However, as the terms of reference indicate that the outcomes of the inquiry are to be budget neutral to the Commonwealth, I doubt whether any real benefits will accrue to our community from this process.

Should you require any further information, please do not hesitate to contact Joyce Oosterlaak, Strategic Manager on (03) 5036 2333 at your convenience.

Yours sincerely

A handwritten signature in black ink, appearing to read "W. J. Maher". The signature is fluid and cursive, written in a professional style.

Councill Bill Maher
Mayor



ANALYSIS OF OPERATING GRANTS

Source: Background to 2001/002 Budget

Officer: Joyce Oosterlaak

Position: Strategic Manager

File Number: 420900

Summary

An analysis of operating grant support from Commonwealth and State Governments reveals a significant reduction in grant support, with grants reducing both in real terms, and as a percentage of operating income and expenditure. This represents a shift in the cost burden of Council's operations from the State to the local community of a minimum of \$666,000 over the last four years.

Recommendation

It is recommended that Council notes the contents of this report.

Report

1. Overview

An analysis has been undertaken of the total operating grant support received from various tiers of Government in order to identify whether there has been a change in the burden placed on the local community in undertaking the normal operations of Council. Hence, grants for specific projects (such as feasibility studies) and for capital projects have been excluded from the analysis.

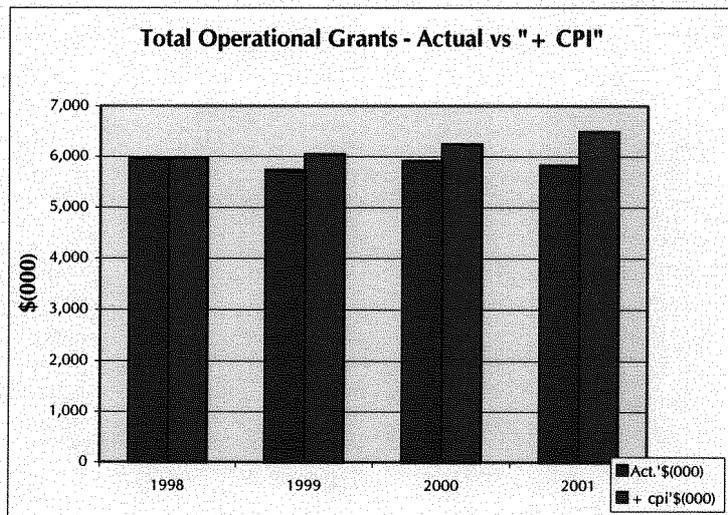
Whilst it would be preferable to have a long-term trend for this report, there have been a number of changes affecting the accounting for the organisation in recent years, these include:

- Amalgamation of City and Shire of Swan Hill in January 1995.
- Change of financial year from September to June, in 1996.
- Change in rate year from September to June, in 1997.
- Continuing refinement of the distinction between capital and operational costs.

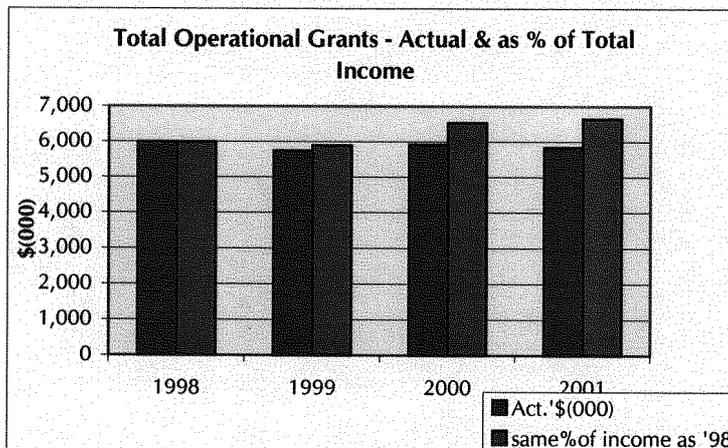
As a result, readily comparable accurate information is only available for the whole of Council operations from 1997/98.

1.1 Effect of Inflation

This analysis has had due regard to the impact of inflation over the time period. The cost of living has increased by 8.51% from the June quarter 1998 to December quarter 2000. Using 1998 as the base year. The graph shows that in the last four years, total operating grants have reduced by \$157,000, from \$5.98 million in 1997/98, to \$5.82 million in 2000/01. Had all operating grants been increased for inflation during that period, total operating grants for 2000/01 would be some \$6.49 million, an increase of \$666,000. As the trend for operating grants is reducing, rather than increasing over time, this gap is expected to increase next year.



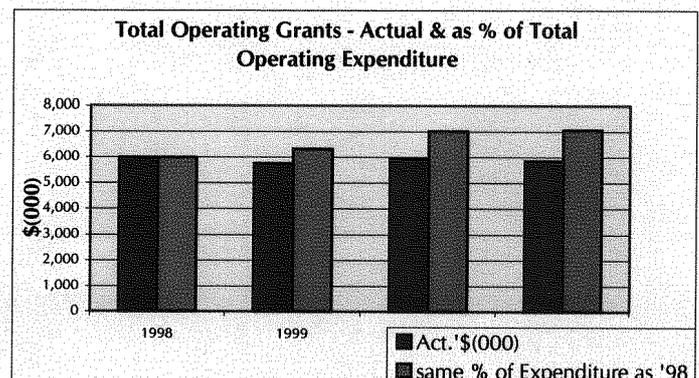
1.2 As % of Operating Income



Operational grants have also decreased as a percentage of total operating income. In 1998 Council operations were subsidised to an extent of 33.49% by operating grants. In 2000/01 this has reduced to 29.37%. The graph shows that if the 33.49% applied today, operating grants for 2000/01 would be \$6.64 million, a variance of \$817,000.

1.3 As % of Operating Expenditure

Similarly, grants have decreased as a percentage of total operating expenditure. In 1998 operating grants provided for some 45.41% of operational expenses, whereas in 2000/01 it provides for only 37.55%. The graph shows that if the 45.41% applied today, the operating grants for 2000/01 would be \$7.04 million, a variance of \$1,219,000.

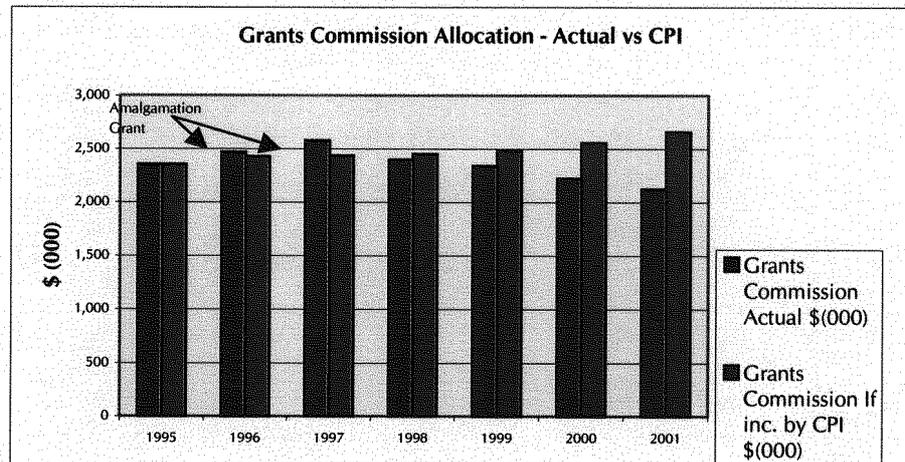


2. Specific Grants

2.1 Grants Commission Allocation

The biggest operating grant received by Council is the Victorian Grants Commission Allocation, a general purpose grant of some \$2.12 million in 2000/01.

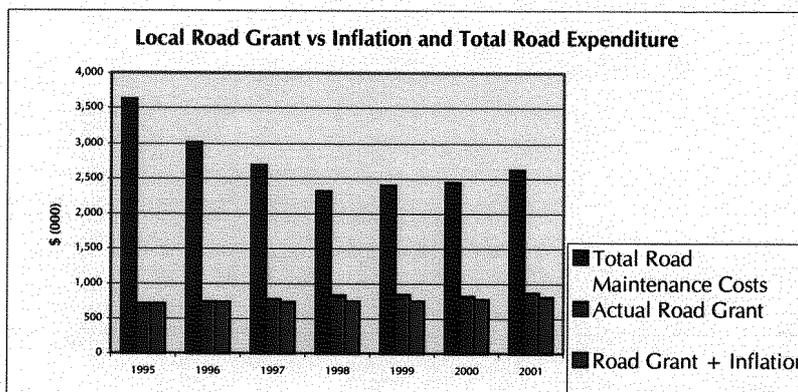
Due to the nature of the grant, we are able to readily trace it to 1994/95. In that year the grant for the City and Shire of Swan Hill, combined, was \$2,352,000. In 1995/96 and 1996/97 the



Grants Commission Allocation was increased for the 'Amalgamation Grant', which was paid to amalgamating Councils in recognition that new Councils experienced higher costs whilst creating the new organisation. Since the end of the amalgamation grant in 1997, the Grants Commission allocation has steadily decreased, to currently being some \$232,000 less than the grant in 1994/95.

If the grant had increased for inflation since 1995, it would represent some \$2.657 million in 2000/01, an increase of \$537,000 from the actual grant received. (if the allocation had increased by inflation from 1997/98 as in the overall analysis, the grant would be some \$2.601 million, an increase of \$481,000 on the current grant).

2.2 Local Road Grant



In addition to the General Purpose Grant, the Grants Commission also pays a Local Road Grant, to provide support to Council in maintaining local road infrastructure. This grant is some \$860,000 in 2000/01.

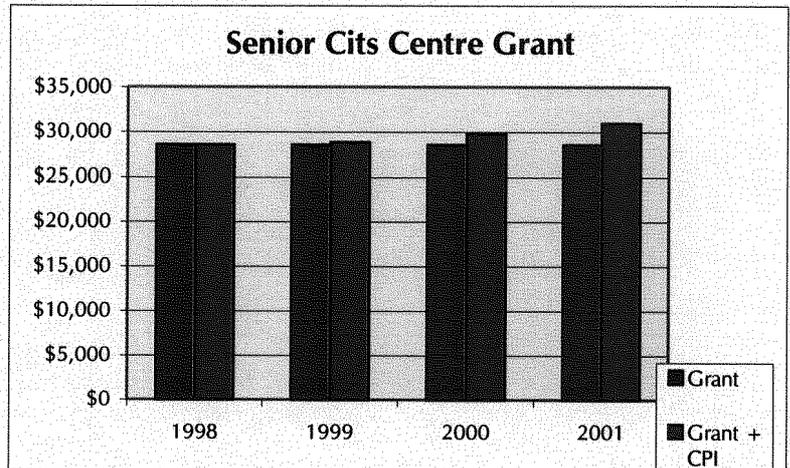
Unlike the general purpose grant, this grant has increased in excess of inflation, from \$710,000 in 1994/95, to \$869,000 in 2000/01.

Had the grant increased by CPI from 1995, it would be \$802,000 in 2000/01, a variance of \$58,000. In comparison, in the same time-frame, total expenditure, capital and operational maintenance, on local roads has reduced from \$3.62 million in 1994/95 to \$2.617 million in 2000/01.

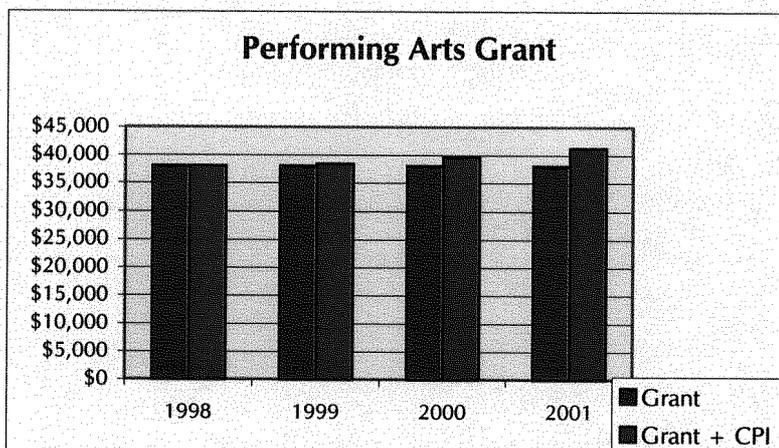
2.3 Senior Citizens Centres

Senior Citizens Centres grants have not increased from \$28,510 in 1998. Had the grant kept pace with inflation, it should now be \$30,937. The government provides Senior Citizen Centre grants on the basis of (essentially) \$4,000 per centre where no meals are provided, and \$6,000 per centre where meals are provided. This formula has not changed since the early

1990's, as the pool of funding for this service has not increased since that time. Increased costs of operating the centres, over time, falls back onto the local community.



2.4 Performing Arts Grant



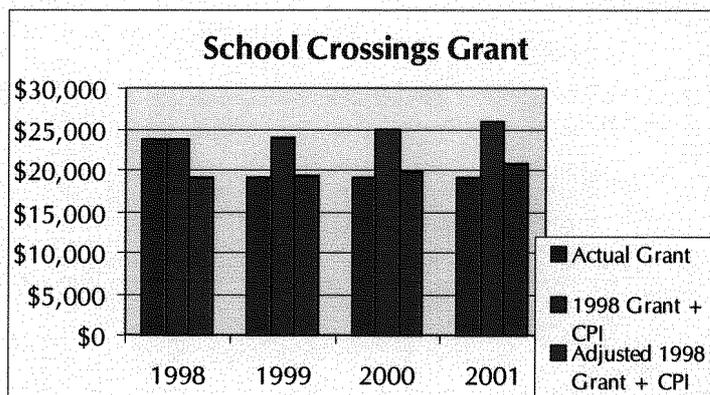
Whilst the graph shows that the grant has not increased since 1997/98, the grant has in fact not increased from \$38,000 since the early 1990's. Given that as part of amalgamation the scope of the program effectively doubled, the ongoing government support for this program has significantly decreased in

real terms.

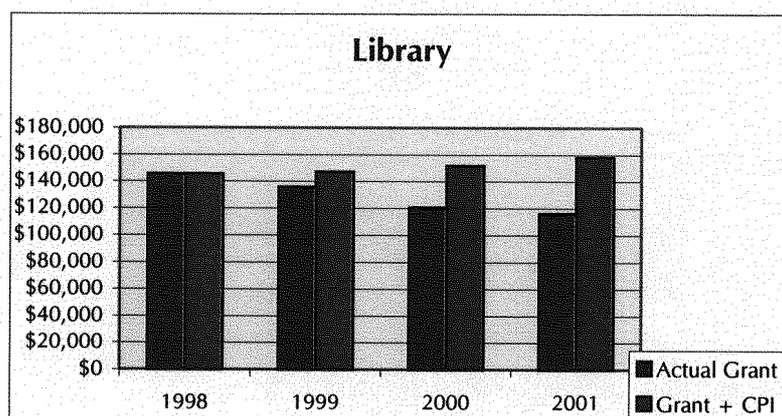
This essentially is also the case for the Art Gallery, where the operating grant of \$50,500 has not increased since 1996/97. Had inflation applied from 1997/98, the grant would have increased by \$4,300 in the current year.

2.5 School Crossings

The 'pool of funds' for the School Crossing grant has remained the same for most of the 1990's. It is calculated by dividing the total pool by the number of manned school crossings in the State. The graph reflects that between 1998 and 1999 the number of school crossings in the municipality decreased from 10 to 8. The green bar reflects funding on 1998 basis of only 8 crossings adjusted for CPI. Again it reflects that the grant has not increased for inflation. During this time period, the % of school crossing expenditure funded by the grant has decreased from 86.18% in 1997/98 to 67.40% in 2000/01.



2.6 Library



The graph shows that the operating grant received for Library operations has decreased from \$145,378 to \$115,910 over the four years. This is part of a deliberate policy of the State Government to provide additional funding for specific projects, rather than for the operation of municipal and regional

Libraries. Had operating grants kept pace with inflation, we would have received \$157,753 in the current year, \$41,843 more than the actual grant.

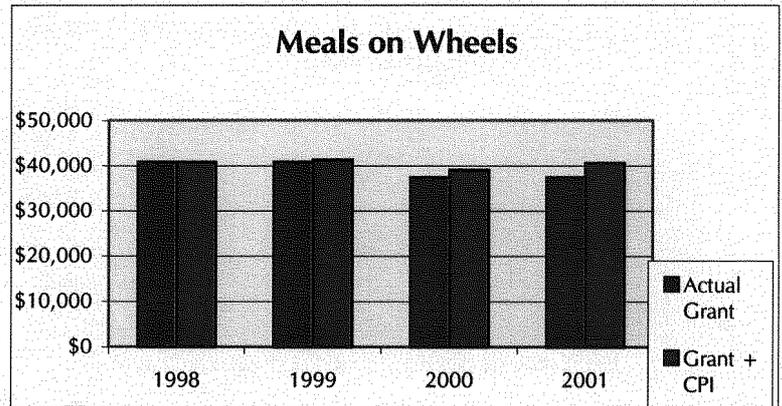
During the same time-frame the operating grant fell from representing 33.61% of total Library income to being 22.51%.

2.7 Meals on Wheels

The Meals on Wheels grant consists of \$1.10 for every meal provided under this program. This amount has been the same since the early 1990's.

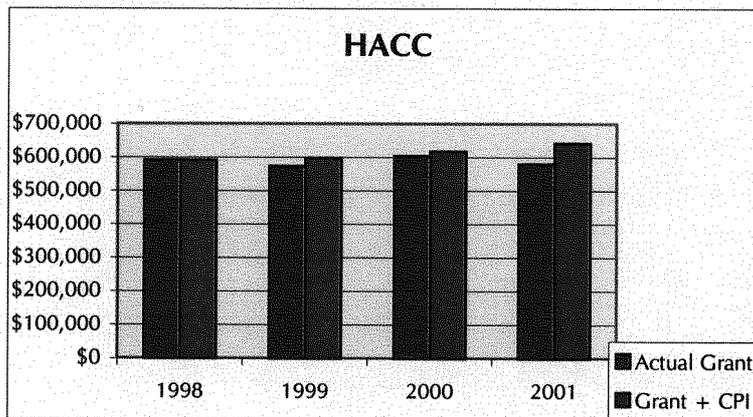
Council provided approximately 37,000 meals in 1997/98 and 1998/99. In 1999/2000 the Multi Purpose Centre in Robinvale commenced providing Meals on Wheels in that area of the municipality, reducing the number of meals (and associated grant funding) provided by the Council.

The graph shows the actual grant received, compared to the grant we would have received if the \$1.10 had increased for CPI since 1997/98. The difference in funding represents \$3,187 in the current year.



2.8 Home and Community Care

Home and Community Care represents a group of programs receiving funding on different formulas from the same State Government Department, to provide a range of services to the same target group. For ease of reference, and because allocation of funding between the various programs is encouraged by the department, these programs have been grouped for analysis.



The graph shows that whilst there have been some minor increases in the overall grant, funding has not kept pace with inflation. Had inflation applied since 1997/98, the combined grants would be \$641,135 in 2000/01, an increase of \$61,695.

Financial Implication

Significantly reduced government support for Council to maintain services, resulting in a shifting of costs from the Government to the local community.

Policy Implication

To be determined.