

# INQUIRY INTO COST SHIFTING ONTO LOCAL GOVERNMENT

## ASSESSMENT – BOROONDARA CITY COUNCIL

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### Definitions

**Compliance:** Additional costs/resources required as a result of compliance to new/amended State/Federal legislation.

**Under Fund:** Although funding may be provided for new/amended responsibilities it is insufficient or short term (e.g. one-off rather than recurrent or Capital with no recurrent support for ongoing maintenance).

Statutory fees set at inadequate levels to recover costs and not adjusted annually.

**Shift:** Clear transfer of State/Federal responsibilities to Local Government Authorities (LGAs) with no associated funding.

**Excess Levy:** New or increased levies imposed on LGAs for no or insufficient return.

**Flow On:** Indirect costs which LGAs are responsible for as a result of compliance, under funding, or shifting of responsibilities.

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No:.....	315
Date Received:.....	5/11
Secretary: .....	

## Cost Shifting - Compliance

### Building Services

Council Activity	Issue	Cost Shift
<b>Building Surveyor Inspections</b>  Increased roles and responsibilities for Municipal Building Surveyor as a result of legislative changes which require increased inspections (e.g. Essential Services Inspections, Special Care Building Audits, Swimming Pool and Barrier Inspections, Smoke Detector Inspections). The age of public and private infrastructure within Boroondara creates greater demand.	Additional staff costs associated with Swimming Pool & Barrier Inspections.  Additional Staff Costs associated with Essential Services Inspections, Special Care Building Audits, Smoke Detector Inspections.	\$15,250 per annum.  \$30,500 per annum.
<b>Increased Building Audit of Surveyor Activities</b>  Deregulation has increased the compliance costs of Building Surveyors and has had a substantial impact on resources (Audits by Tax Office, Building Commission etc).	Additional staff costs associated with the deregulation of Building Surveying.	\$30,500 per annum.
<b>Private Surveyors Complaints</b>  Building Commission is now referring all complaints about private surveyors to LGAs, as the 'Responsible Authority' with no capacity to recover costs.		

## Cost Shifting – Compliance (cont'd)

### Statutory Planning

Council Activity	Issue	Cost Shift
<p><b>Rescode</b></p> <p>Introduction of Rescode has had a dramatic effect on the time taken to assess planning applications (far more complex legislation and higher level of expertise required to administer.)</p>	<p>This LGA has been practicing many aspects of Rescode for some years. This is reflected in the costs associated with the service and the cost shifts identified in the "Underfund" section of this document.</p>	<p>Please refer to "Underfund" section – Planning Fees (general).</p>

### Local Laws

<p><b>Dog Act – Amended Legislation</b></p> <p>New legislation requiring Council to investigate and enforce provisions relating to restrictive dogs (no off set fee or subsidies).</p>	<p>This involves an ongoing cost to Council.</p>	<p>\$35,000 per annum.</p>
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## Cost Shifting – Compliance (cont'd)

### Information Technology

Council Activity	Issue	Cost Shift
<p><b>Upgrade of Software</b></p> <p>Software enhancements (required by Federal or State Government legislative changes) generally have no funding.</p>	<p>With Council embarking on the replacement of all software systems over the last few years, this cost shift has been hidden in the overall upgrade costs.</p>	<p>Council estimate of additional costs of software upgrades for the 2001/02 is \$5,000.</p>

### Community Services

<p><b>Child Care Building Regulation Changes</b></p> <p>Significant changes to building regulations in 1998, which are only partially funded but are compulsory.</p>	<p>Cost of upgrades to comply with regulation changes between 1998/99 and 2002/03.</p>	<p>Total cost to Council -- \$3 Mil. Grants provided to 2001/02 \$386,000.</p>
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**Cost Shifting – Compliance (cont'd)**

**Community Planning**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<b>Disability Discrimination Act</b>  Ongoing implications for upgrade in infrastructure to meet requirements.	Council has an extensive range of buildings and infrastructure assets that require upgrades to comply with these requirements.	Based on the current data available to Council, these community based works will cost \$18 Mil.

**Parks and Gardens**

<b>Tree Management Plan</b>  New requirement of the preparation of a Tree Management Plan for the Chief Electrical Inspector.	Costs associated with the initial preparation of the plan and update and audit.	Initial cost - \$5,000.  Ongoing update and audit \$12,000 per annum.
<b>Open Space</b>  Regulations regarding the installation of back flow prevention devices and their annual maintenance.	Ongoing costs of maintenance.	\$5,000 per annum.

## Cost Shifting – Compliance (cont'd)

### Finance and Civic

Council Activity	Issue	Cost Shift
<p><b>GST</b></p> <p>The GST legislation for Councils is complex, as Council provides GST free supplies, supplies attracting GST and Division 81 supplies which makes certain supplies, at the discretion of the Minister, outside the legislation. The Government could have allowed Councils to be GST exempt which would have administratively much simpler.</p> <p>LGAs have been responsible for initial set up costs (eg software, audits etc) and ongoing operational costs.</p>	<p>To comply with GST requirements Council reviewed all pricing arrangements with suppliers and customers in 2000. Costs included software upgrades and consultancy costs. A post implementation review was also conducted in 2001.</p>	<p>Total compliance costs - \$282,000</p> <p>Ongoing compliance costs \$9,300 per annum.</p> <p>Forgone interest income awaiting reimbursal of GST paid \$13,000 per annum.</p>
<p><b>Superannuation Unfunded Liability</b></p> <p>As a result of State directed amalgamations, many employees were made redundant causing a huge drain on the LAS Defined Benefits Fund resulting in LGAs having to make a substantial contribution towards the unfunded liability.</p>	<p>Council's portion of the unfunded liability was \$12.6 Mil</p> <p>The additional earnings paid on this amount were \$3.1 Mil between 1997/98 and 2001/02.</p> <p>This has now been refinanced into a 6 year loan.</p>	<p>Total capital cost and earnings paid- \$15.7 Mil</p> <p>The total interest payable on the refinanced loan will amount to an additional \$1.5 Mil.</p>

**Cost Shifting – Compliance (cont'd)**

**Finance and Civic**

Council Activity	Issue	Cost Shift
<p><b>National Competition Policy and Competitive Neutrality</b></p> <p>From 1994 Councils are required to comply with NCP and CN. This meant Councils are now subject to Part IV of the Trade Practices Act and must comply with competitive neutrality for any significant business activity Council provides. This has significant resource implications for administration and reporting.</p>	<p>Ongoing costs of compliance including training, administration and reporting.</p>	<p>\$5,000 per annum.</p> <p>Development of a Council Pricing Policy \$10,000.</p>
<p><b>Whistleblowers Legislation</b></p> <p>Costs involved in setting up procedures and purchasing of required guides. Ongoing costs associated with compliance yet to be determined.</p>	<p>Council's ongoing costs including an independent reporting service.</p>	<p>\$44,000 per annum.</p>
<p><b>Privacy Legislation</b></p> <p>Costs associated with implementing the provisions – audit, policy and compliance statements. Ongoing costs associated with compliance yet to be determined.</p>	<p>Cost of implementation and ongoing compliance costs.</p>	<p>Implementation - \$28,500.</p> <p>Ongoing estimate - \$4,800 per annum.</p>

**Valuations**

<p><b>Valuations</b></p> <p>LGAs are now required to prepare a valuation every two years instead of every four years (with little direct or indirect benefit for LGAs).</p>	<p>Cost to Council of the 2002 Revaluation was \$430,000 offset by the sale of valuation data income of \$240,000.</p>	<p>Assuming a 50% reduction in the cost to Council due to more frequent updates, additional cost to Council will be \$95,000 per revaluation.</p>
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## Cost Shifting – Under Fund

### Building Services

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<b>Lodgement Fees</b>  Legislated lodgment fee of \$15.00 for recording and storage of private surveyors permits is insufficient.	This fee is currently capped.  The Association of Municipal Building Surveyors has reviewed this activity and a fee of \$25 appears more appropriate.	\$20,000 per annum. Based on 2,000 lodgements per annum.
<b>Property Information</b>  Fee of \$30.00 for legally binding information does not reflect true cost.	This fee has been capped since 1994.  The Association of Municipal Building Surveyors has reviewed this activity and a fee of \$50 appears more appropriate.	\$70,000 per annum. Based on 3,500 lodgements per annum.
<b>Section 29 Building Act Demolition and Report</b>  Section 29 Demolition and Report is a complex piece of legislation to administer and the fee is capped at \$50.00 which is insufficient. Age and heritage issues within Boroondara compound this issue.	This fee is capped like the two other fees listed above and therefore has the ability to become a cost shifting issue in the near future, if not allowed to increase with administrative costs on an annual basis.	



**Cost Shifting – Under Fund (cont'd)**

**Health Services**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<p><b>Immunisation</b></p> <p>Immunisation requirements have increased significantly (e.g. required vaccinations etc) with minimal or no additional financial assistance or resources.</p>	<p>Immunisation of babies and pre-school children is currently funded by the federal government at a rate of \$6.00 per encounter. This rate has not changed since 1996.</p> <p>Immunisation of school children is currently funded by the state government at a rate of \$2.00 per encounter. This rate has not changed since 1998.</p> <p>The completion and issue of Certificates of School Immunisation are funded at a rate of \$2.50 per certificate. This rate has not changed since 1991.</p>	<p>From 1998/99 to 2001/02 the percentage of the service costs met by these fees has decreased from 26.5% to 21.7%. A total cost shift in comparative terms of \$31,500.</p> <p>Over the same period the cost of the service met by Council has totalled \$847,000. This has increased by some \$63,500 per annum since 1998/99.</p>

**Cost Shifting – Under Fund (cont'd)**

**Statutory Planning**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<p><b>Planning Fees (general)</b></p> <p>Inadequate set planning fees which do not cover cost of administering the Planning and Environmental Services Act.</p>	<p>The majority of this LGAs planning applications relate to residential developments. This LGA ensures that the planning process allows all appropriate consultation to be undertaken where necessary.</p> <p>While the residential development table of fees have increased since 1998, they still do not adequately cover the cost of administration. These fees are based on the value of the development rather than the cost of actually administering the application.</p> <p>The percentage of fees and charges funding this LGAs planning procedures has been approximately 55% from 1997/98 to 2000/01. In 2001/02 this decreased to approximately 38%.</p>	<p>The under funding of this service due to the inadequate statutory fee structure from 1997/98 to 2001/02 totals \$2 Mil.</p> <p>This is budgeted to be approximately \$1 Mil for 2002/03.</p>

## Cost Shifting – Under Fund (cont'd)

### Local Laws

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<p><b>School Crossings</b></p> <p>School crossings (numbers) and associated supervision and administration costs (e.g. workcover) continue to increase with no additional subsidies/funding. Previously this service was fully funded. It is also becoming increasingly difficult to qualify for Vic Roads to fund additional school crossings where a need is identified by LGAs.</p>	<p>Over the past five years grant funding continued to decrease from 55% to 41% of the overall cost of supervising school crossings. The current funding for school crossing supervision is \$2,520 per crossing while Council's average cost is \$7,550.</p> <p>Vic Roads "warrants" requirements may result in existing and additional school crossings identified by LGAs not being funded into the future.</p>	<p>The shortfall in fully funding the service totalled \$926,000 from 1997/98 to 2001/02.</p> <p>The shortfall is budgeted to be \$328,000 for 2002/03.</p>

**Cost Shifting – Under Fund (cont'd)**

**Community Services**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<p><b>Home and Community Care</b></p> <p>The HACC program is significantly under funded which results in LGAs having to provide sufficient “top up funding” as well as limiting service. The ever increasing aging population has increased the “user base” significantly, with no additional funding or resources.</p>	<p>In 1997/98 Council contributed 20% of the cost of this service, while grants and service fees and charges contributed the remaining 80%. From 1997/98 to 2000/01 there was a significant short term increase in demand for HACC services that was not matched by an increase in government funding. The cost to Council increased to approximately 25% in 1998/99 and peaked at nearly 30% in 2000/01. With a decrease in service provision in 2001/02 the cost to Council has decreased to approximately 23% of the service cost, but not yet back to the 20% level.</p>	<p>Based on the expectation of Council funding 20% of the cost of HACC services to the community, there is a significant cost shift created by the inability of the state and federal governments to react to the increase demand for the service. Over the period 1998/99 to 2001/02 this equated to approximately \$1.1 Mil</p>

**Cost Shifting – Under Fund (cont'd)**

**Community Services**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<p><b>Maternal and Child Health</b></p> <p>The unit cost per hour is grossly under funded. Additionally, State Government health policies, such as early release of post natal mothers have resulted in additional workloads for M &amp; CH nurses (funded by LGAs). Funding not keeping pace with increased staffing and operational costs.</p>	<p>In 1997/98 the State government agreed to fund this service by a contribution of 48.7% of the operating costs each year. By 2001/02 this grant has reduced to 38.3%. In comparative terms the grant has risen by only 5.9% over the last five years, while Council's operating costs have risen by 19.8%.</p>	<p>Over the period 1998/99 to 2001/02 this equated to approximately \$317,000.</p>
<p><b>Libraries</b></p> <p>Libraries are under funded in respect of both operational grants and capital/infrastructure upgrades. The “gap” is where feasible addressed by LGAs. Previously 50:50 funding share, now 75:25.</p>	<p>While the Library grant over the last five years has generally kept pace with inflation, it is not at the historical level of funding. Library services funding was distributed on a 50:50 allocation of the library services costs between the state and local government in the late 1970's. Since then library grant funding has steadily decreased to the current day level of approximately 17% to this Council in 2001/02.</p>	<p>Based on the historical levels, approximately 33% of the service cost has been shifted to Council. This now equates to approximately \$1.2 Mil per annum</p>

## Cost Shifting – Under Fund (cont'd)

### Community Services

Council Activity	Issue	Cost Shift
<p><b>Family Day Care</b></p> <p>The amended government regulations governing the operation and accreditation of Family Day Care have increased workloads for both Council Officers (administration) and Care providers. No increases in funding have been forthcoming to offset increased costs.</p>	<p>The amendments to the regulations have created both initial and ongoing cost implications.</p>	<p>Initial costs of implementation - \$24,000 Ongoing Costs - \$18,000 per annum.</p>

### Integrated Planning

<p><b>Asset Renewal</b></p> <p>State Government placing greater emphasis on Council's asset renewal program without increasing funding to maintain assets thereby forcing LGAs to divert funds from other non-asset programs.</p>	<p>Council's budget for 2002/03 has identified an additional \$7.72 Mil for our Enhanced Asset Renewal program without any additional funding being made available by the State or Federal Governments.</p>	<p>Council's current estimate of Asset Renewal requirements have identified the following cost estimates:</p> <ul style="list-style-type: none"><li>• \$13 Mil – Footpaths</li><li>• \$2 Mil – Sports Pavilions</li><li>• \$10 Mil – Brick Stormwater Drains</li></ul>
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## Cost Shifting – Under Fund (cont'd)

### **Youth Services**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<b>School Focussed Youth Services</b>  A program funded by State Government to improve links between local school and community agencies to ensure improved service delivery to young people. Future funding has not been confirmed in which case the service will disappear unless funded by LGAs.	This service has been funded by \$125,000 since 1999.	A recent announcement of refunding is yet to confirm the amount of funds for this service in for LGA.
<b>FreeZA</b>  Funded since program's inception in 1997/98 at \$20,000 per year. Current year funding has been reduced to \$17,500.	This funding is used to fund alcohol/drug free concerts for the community.	This reduced funding will result in one less concert this year.

### **Community Planning**

<b>Gambling</b>  New state gaming legislation (and policy) states that LGAs should always (as only entity entitled to) prepare and submit a detailed Social and Economic Impact Statement in response to any new EGM gaming application in a specific municipality.	Council spent considered time on this issue in 2001/02.	Cost to Council in 2001/02 was \$11,000 in terms of policy development.  No attempt has been made to quantify the social cost and increased demand for other Council services.
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## Cost Shifting – Under Fund (cont'd)

### Infrastructure and Roads

Council Activity	Issue	Cost Shift
<b>Traffic and Pedestrian Signals</b> It has become increasingly difficult to obtain Vic Roads funding for new traffic and pedestrian signal installations for main roads.	Council has submitted a significant number of projects to VicRoads with no funding received to date.	Both of these areas are significantly underfunded by VicRoads.
<b>Black Spot Funding</b> Increasing pressure for LGA to fund Black Spot projects which are not met by State Government funding and yet have a high Benefit Cost Ratio (BCR).		

### Finance and Civic

Council Activity	Issue	Cost Shift
<b>Victorian Grants Commission</b> Reduction in monies received from the grants commission. This may be more a carving of the pie rather than an overall reduction in monies allocated by the Grants Commission.	This LGA's allocation of the VGC Local Roads grants funds has decreased significantly over the past two years.	The VGC Local Roads grant funds decreased by \$71,000 in 2001/02 and are estimated to decrease by an additional \$177,000 or 29.5% in 2002/03.



## Cost Shifting – Shift

### Local Laws

Council Activity	Issue	Cost Shift
<p><b>Parking - State Facilities</b></p> <p>Enforcement of ever increasing parking problems around schools and hospitals. State policy is to not provide funds for parking around schools and hospitals, even if funding is being provided for major infrastructure upgrade.</p>	<p>Council conducted an additional 158 patrols of school crossings in 2001/02 to address the safety issues associated with this lack of parking facilities. These patrols will increase to 175 in 2002/03.</p>	<p>Cost of patrols \$19,400 per annum.</p>

### Community Services

<p><b>Crime and Safety Programs</b></p> <p>One off grants/funding are provided to establish programs and employ Officers, and then the expectation is that these programs/Officers will be ongoing and all costs will be “covered” by LGAs.</p>	<p>Council continues to fund this service with no ongoing funding from the State government.</p>	<p>The cost to Council for this service over the last two years has been \$225,000. The budgeted expenditure for 2002/03 is \$135,000.</p>
<p><b>Long Day Care</b></p> <p>The loss of operational subsidy that occurred some years ago has had an adverse impact on community child care (reducing service choice). The costs shifted to Council and parents.</p>	<p>This subsidy was removed in 1997.</p>	<p>This equated to an estimated increase in fee costs to families of \$20 per child, per week.</p>

## Cost Shifting – Shift (Cont'd)

### **Integrated Planning**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<b>Economic Development</b>  Prior to 1994, Economic Development for a local area was not a mainstream Local Government activity.	  This service has only been part of LGA service profile since the amalgamation of Councils increased their geographical sizes. No funding has been provided to support this need.	  Council currently spends \$350,000 per annum on Economic Development.

### **Parks and Gardens**

<b>Nature Strips</b>  Reinstatement of nature strips following works completed by State Government service authorities.	  State Government service authorities continue to damage Council's nature strips with no rectification or reimbursal to Council.	  Cost to Council is estimated at \$5,000 per annum.
<b>Water Courses</b>  LGA maintain land around watercourses that run through Council Parks without financial support from the State Government.	  Works associated with the waterways running through Council.	  Cost to Council is estimated at \$20,000 per annum.

## Cost Shifting – Shift (Cont'd)

### **Parks and Gardens**

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
<b>Tree Clearance Near Powerlines</b>  This was previously the responsibility of the SEC.	The pruning of trees around powerlines continues to be a costly activity of Council.	Cost of tree pruning around powerlines was \$365,000 in 2001/02 and is budgeted at \$400,000 for 2002/03.

### **Finance and Civic**

<b>MFESB Contributions</b>  The MFESB is now under funded and LGAs have to contribute funds to ensure service provision is maintained.	Council's contribution has risen by 71% from 1997/98 to 2001/02. The budgeted contribution for 2002/03 is \$1.89 Mil.	Cumulative increase of \$767,000 from 1997/98 to 2001/02.
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### **Graffiti Removal**

<b>Graffiti Removal</b>  Removal of graffiti from public authority assets.	Graffiti is removed when it contains offensive language with no reimbursal from the authorities.	Ongoing cost to Council \$10,000 per annum.
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## Cost Shifting – Excess Levy

### Local Laws

Council Activity	Issue	Cost Shift
<p><b>Registration of Animals</b></p> <p>Council to collect and pay to State increased levy for registration which has no discernable benefits for residents or LGA (\$2.50 per registered animal, increased from \$1)</p>	<p>Additional costs of administration associated with the collection of the levy.</p>	<p>\$2,000 per annum.</p>
<p><b>Perin Court Fees</b></p> <p>Council's pay a registration fee of \$37.50 to lodge outstanding parking tickets with Perin Court, while state government authorities pay nothing. It is estimated that the services provided by the Perin Court are a 50:50 split between state and local government. This means that local government is subsidising the state governments use of this service.</p>	<p>Council paid approximately \$618,750 in Perin Fees in 2001/02. Recoveries from Perin totaled approximately \$480,000.</p>	<p>As at August 2002 Council has \$2.5 Mil of outstanding fines registered at Perin court dating back over four years. This includes \$672,000 of Perin court fees, for which no recovery has yet been achieved.</p>

## Cost Shifting – Excess Levy

### Waste

<b>Council Activity</b>	<b>Issue</b>	<b>Cost Shift</b>
Landfill levy being applied by EPA at a rate of \$4 per tonne.	The EPA levy was a rate \$3 per tonne up until 1 July 1999. Based on Council's annual waste going to landfill of an average of 61,500 tonnes per annum over the last three years, this equates to \$61,500 per annum.	Total excess levy over the last three years \$184,500.

### Summary of Cost Shift Analysis

The total Cost Shift between 1997/98 and 2001/02 detailed in this report is approximately	<b>\$26.5 Mil</b>
The total Asset Renewal costs detailed in this report are approximately	<b>\$25 Mil</b>
The total Disability Discrimination Act infrastructure upgrade costs detailed in this report are approximately	<b>\$18 Mil</b>
The total ongoing cost shift identified in the 2002/03 budget detailed in this report is approximately	<b>\$4 Mil</b>