

Submission to the

Standing Committee on Economics, Finance
and Public Administration's

Inquiry into

Local Government and Cost Shifting

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EXECUTIVE SUMMARY

The City of Whittlesea submits that cost shifting has occurred between State and local government and also between Federal and local government. In considering cost shifting, there are four key elements to address:

1. Cost shifts in general and specific grants programs
2. Shifts and delegations in responsibilities
3. Persistent under-funding of program areas
4. Failure to include local government in planning for infrastructure and services.

The City of Whittlesea believes that whilst cost shifting has an impact on local government finances, the greater problems are related to under-funding and shifting of responsibilities. An ongoing issue is infrastructure spending. The Victorian Auditor-General has assessed the gap between actual and required infrastructure spending across all Victorian Councils as between \$1.4b and \$2.75b.

Cost shifting, under-funding and shifts in responsibilities can be demonstrated in many areas of Council activity. In this submission we highlight the following areas:

- Roads
- Traffic signals
- School parking facilities
- Public transport infrastructure
- Libraries
- School crossings
- Home and Community Care (HACC)
- Immunisation
- Preschools
- Maternal and Child Health
- Local Laws
- Tobacco control
- Valuations and revenue.

Local communities perceive local government as the first and most direct tier of government in Australia, yet local government is recognised in neither State nor Federal Constitutions. Local government has responsibility for many of the important daily services which improve the lives of our local residents. The City of Whittlesea believes that local government needs to have genuine input into program planning and determination of funding needs for services for which local government is the delivery agent.

The trend towards funding ongoing services through one-off, special purpose and discretionary grants has intensified the effects of cost shifting and under-funding. Examples of services that have continued beyond an initial discretionary grant include:

- Landcare projects
- Stormwater drain management
- Sharps disposal.

Insufficient recurrent funding and a reliance on discretionary grants have meant that local government has had to underwrite service provision when funding falls short. In the absence of sufficient recurrent funding, Council has been forced to under-spend on infrastructure, decrease the level of services to the community and increase the fees charged to users of those services.

INTRODUCTION

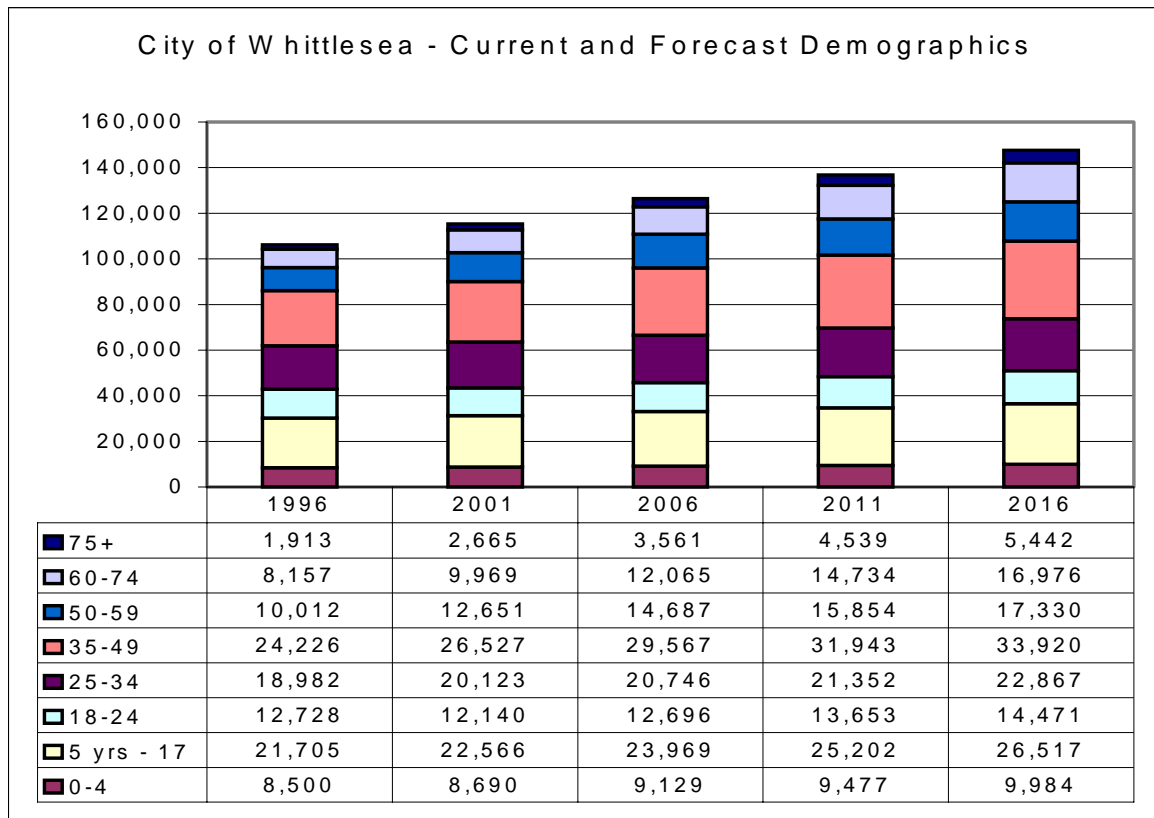
The City of Whittlesea

The City of Whittlesea is located on the northern fringe of Melbourne's metropolitan area, with its southern boundary approximately 15km to the north of Melbourne's CBD. The City is one of the larger municipalities in the Melbourne metropolitan area. Approximately 70% of the municipality is rural or non-urban. The non-urban areas contain less than 10% of the City of Whittlesea's population.

In the late 1960s, the State Government identified significant areas of land in the municipality as future development sites. This area, known as the Plenty Corridor, is expected to provide the major source of new urban land in Melbourne's north over the next 20 to 30 years.

The demographic profile of the City of Whittlesea is of an ethnically diverse, growing municipality. The municipality grew at an average annual rate of 3.2% between 1981 and 1996 and 1.66% between 1996 and 2001. A significant proportion of residents in the municipality come from non-English speaking backgrounds, with 36.3% of the population having been born overseas. The countries of the former Yugoslavia, Italy and Greece account for the majority of non-Australian birthplaces.

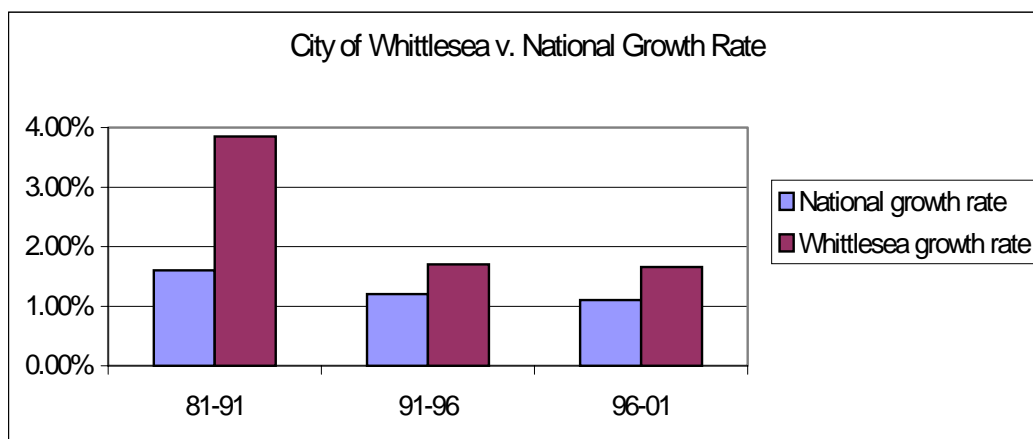
The graph below demonstrates the City’s current and forecast age demographics.



It is important to note the City of Whittlesea is experiencing strong growth in the 5-17 and over 50 age groups, which tend to be the age groups requiring the highest levels of human services expenditure.

Source: City of Whittlesea Statistical Bulletin, Volume 4 Issue 16, September 2001.

The City of Whittlesea has grown much faster than the Australian average over the past 20 years. The following graph shows that between 1981 and 1991, Whittlesea grew at three times the national growth rate.



Average annual growth rates. Sources: City of Whittlesea Statistical Bulletin, Volume 4 Issue 16, September 2001 (2001 data estimate only); ABS 3201 Population by Age and Sex.

The particular challenges that face the City of Whittlesea in delivering services are:

- High growth in population
- Significant non-urban area
- Large Non-English Speaking Background population
- Growth in age demographics requiring the most services, that is, children under five and senior citizens.

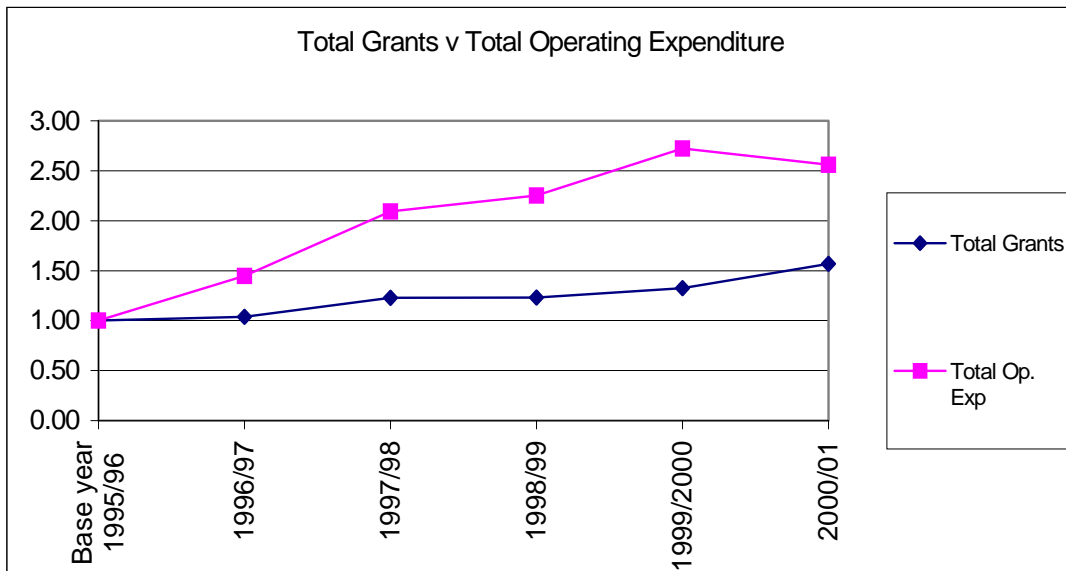
The City of Whittlesea has experienced not only general growth in service responsibilities in line with population growth, but additional responsibilities given the geographic and demographic nature of the municipality. As will be discussed below, the roles and responsibilities of local government have significantly increased in the area of human services. Cost shifting from State to local government has been particularly felt in these areas as they are the ones experiencing the most growth in demand. Given the City of Whittlesea's particular challenges in delivering human services, cost shifting has been felt most directly in these areas.

Cost Shifting Related to Policy Shifting and Under-Funding

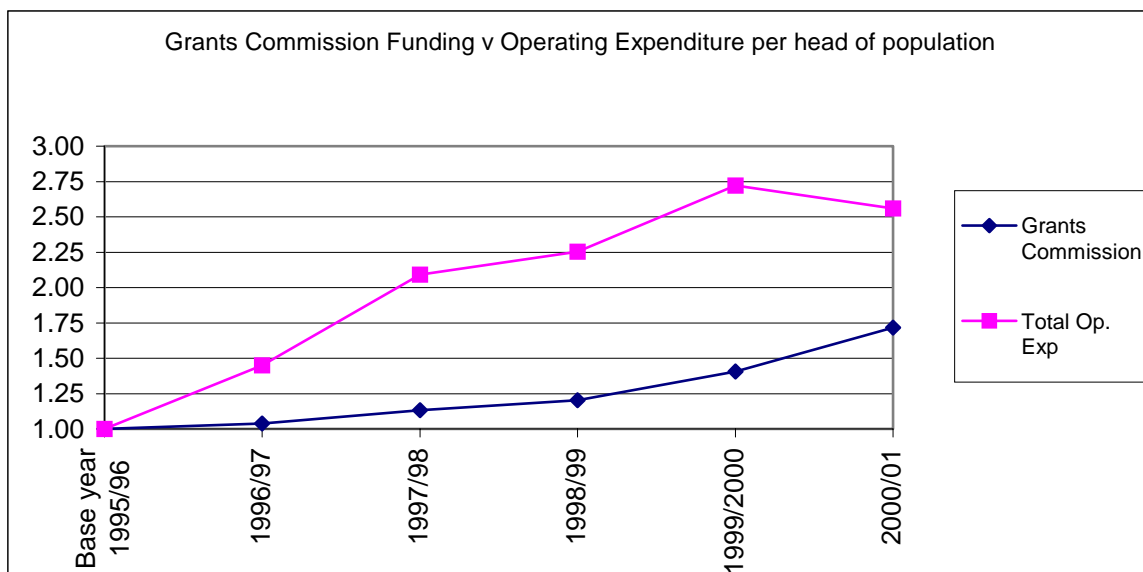
The City of Whittlesea submits that cost shifting is not simply a financial effect due to alterations in funding relationships. There are four problems in relations between local and other levels of government:

1. Cost shifting
2. Shifts and delegations in responsibilities
3. Persistent under-funding of program areas
4. Failure to include local government in planning for infrastructure and services.

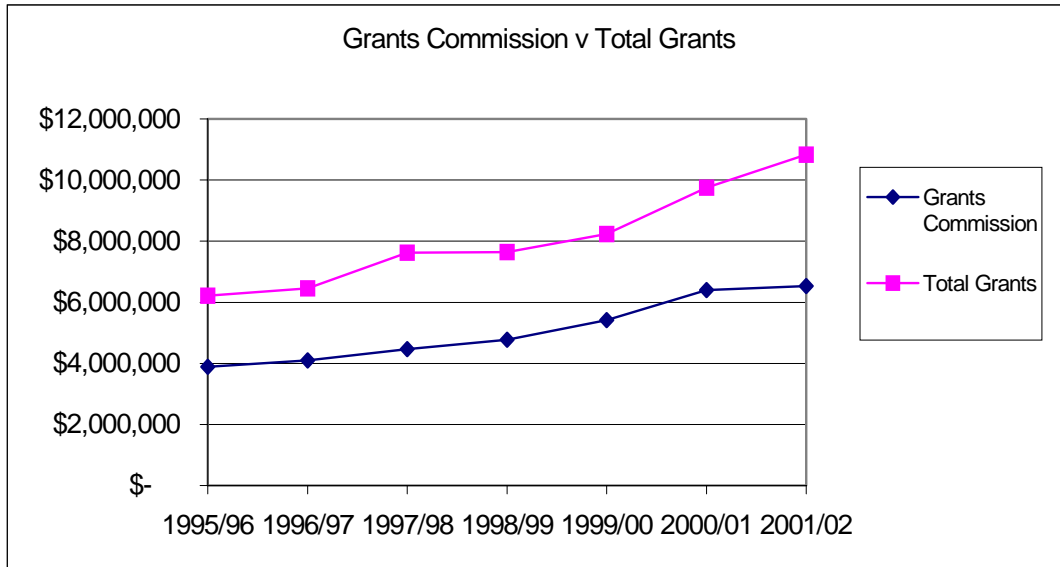
The City of Whittlesea is able to show that there is a significant gap between grants funding and operating costs. The graph below illustrates how funding has failed to keep pace with program expenditures since 1995/96. Taking 1995/96 as the base year, total costs have risen much more quickly than grants-based funding.



The trend for funding services through discretionary and special purpose grants rather than long-term recurrent grants has exacerbated this effect. With population growth and increased delivery cost, Grants Commission funding has fallen well behind operating expenses, as the following graph shows. The City of Whittlesea’s operating costs per head of population have more than doubled since 1995/96, while Grants Commission funding proportional to population has increased by only approximately 60%.



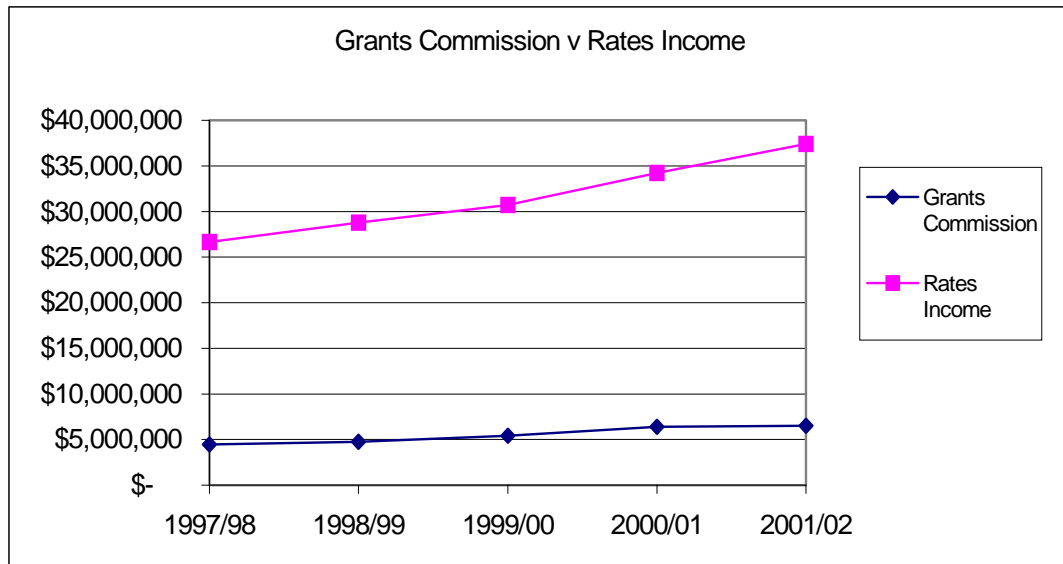
The gap between grants from all sources and Grants Commission funding is illustrated by the following graph.



In effect, Grants Commission funding as a proportion of total grants has fallen away, reflecting an emerging trend towards discretionary grants. The risk with this approach is that ongoing service needs receive only short-term or discretionary funding, leaving Council to fund programs when grants cease or are reduced in value.

In addition to this, Grants Commission funding has decreased as a source of income proportional to rates. This means that Council is more reliant on ratepayers' funds to deliver services to its community that were previously supported to a greater extent by State and Commonwealth Grants Commissions.

The following graph demonstrates the extent to which Grants Commission funding has decreased as a source of income. In fact, the most recent round of Grants Commission funding delivered the City of Whittlesea a decrease in the total grant compared to the previous year.



The question of revenue sources is particularly important for Victorian local governments. With the State Government-mandated amalgamations in 1994, a rate cap was introduced, ensuring that Councils could increase rates by only CPI minus 1%. For Whittlesea, experiencing population growth ahead of CPI, this entrenched a gap between service needs and funding. Even since the rate cap was lifted in 1998, Councils have been warned not to exceed CPI.

The consequence of this financial restriction is apparent in the recent announcement by several Victorian Councils of rate rises averaging 6.4% across Victoria. Some of this is due to property revaluations, but a large proportion comes from Councils' need to address infrastructure problems. In short, the decreased availability of funding from State and Federal Governments has been compounded by State Government limitations on local government's ability to raise its own funding.

The City of Whittlesea remains committed to the current structure of State and Commonwealth Grants Commissions but believes that the quantum of grants funding available to the State Commissions must be increased.

Policy Shifting, Roles and Responsibilities

In the City of Whittlesea's experience, the roles and responsibilities of local government have grown while available funding has decreased. Some of this is the result of cost shifting from State and Federal governments, but the greater part is related to simple under-funding of necessary daily services.

As other local government bodies have pointed out, local government is perceived by the community to be the first and most direct tier of government, yet it has no recognition in either State or Federal Constitutions. Thus whilst local government has been the level of government most directly involved in delivering services, reflecting community wishes and planning for growing communities, it has frequently had the least degree of input into developing policy, infrastructure planning and funding formulae.

The City of Whittlesea believes that while cost shifting has added to the financial burden of local government, the issue of the determination of local government roles and responsibilities is just as important. Local government has rarely been in a position to exert decision-making control over many of the services it has been asked to provide.

The question then is not simply of cost transfers within existing programs and services, but of entirely new responsibilities being delegated to local government. Increasingly, this has meant that local government's role has been thought of by other levels of government as a service provider or even service broker, rather than as an active participant in community development.

The Commonwealth Government bears as much responsibility for this shift in roles as State Governments. Numerous changes in Commonwealth Government policy, especially with regard to human services, have had significant impact on local government. Examples include the following:

- Childcare policy, where changes in childcare funding policies have had a large impact on family day care services through manipulating demand for and affordability of long day care.
- Immunisation policy, where the GP Immunisation Incentive Scheme transformed local government from a mainstream provider into an "allied" provider.
- Childhood dental services, where straightforward Commonwealth service cuts led directly to an increase in local government responsibilities.
- Aged care policy, where numerous policy shifts with regard to residential care, community care and Home and Community Care (HACC) funding have relied on local government to make up the shortfall whenever the funding model is changed.

In the City of Whittlesea's view, an important question to address is that of the change in the nature and extent of local government's roles and responsibilities. Cost shifting as a purely financial effect has flowed from the wider policy problem of inadequate local government input into the establishment and/or expansion of services they are expected to provide.

Whilst it is true, as the Australian Local Government Association noted in its 2002 Budget Submission¹, that access to growth taxation revenues is important in alleviating cost shifting, equally important is ensuring that local government does not become simply a service delivery agency.

The report of the Commonwealth Grants Commission Review on the Operation of Local Government, delivered in June 2001, established that the functions of local government have broadened since 1974. The report also established that in many instances a shift in the cost of providing services and facilities has accompanied this broadening in responsibilities, and that State governments had lessened their relative financial contribution. The Grants Commission noted that cost shifting occurred in two ways:

1. Local government delivers a service on behalf of another sphere of government, but funding for that service is reduced or withdrawn, leaving local government to make up the funding gap.
2. Local government adopts a service after another sphere of government ceases to provide it.²

The report notes several other changes which have increased the responsibilities of local government, but does not necessarily demonstrate that these changes have a direct effect on cost. In the City of Whittlesea's experience, it is rare for a growth in function not to be accompanied by a transfer of cost.

The City of Whittlesea can identify growth of functions and concomitant shift in cost in the following ways:

- Increased community expectations of local government as a service provider
- Changes in the types of services provided
- Transfer of legislative responsibility
- Transfer of regulatory enforcement responsibility
- Expansion of services in response to need
- Shift in basis of roles towards community services
- Poor distribution of growth funding
- Unit pricing models which fail to recognise drivers of cost
- Capital cost expenditures in order to provide services with recurrent-only funding

¹ ALGA 2002/03 Federal Budget Submission, p.4.

² Commonwealth Grants Commission, Review of the Operation of the Local Government (Financial Assistance) Act 1985, p.52.

- Diminution of funding for key services through failure to recognise true cost of delivery
- Poor articulation of General Purpose and Specific Purpose Grants
- Poor articulation of recurrent and one-off capital funding.

This submission will seek to document cost shifts to the City of Whittlesea. It will show that substantial cost shifts have occurred, some as high as 41% of the total cost of the service over the past 10 years. It will argue that whilst the City of Whittlesea continues to be an effective and willing provider of services, it is increasingly relying on ratepayer funds to cover deficits and that certain service areas are under considerable financial pressure.

Global Cost Increases

Increases in CPI, salary costs, on-costs and insurance are issues that affect every aspect of Council operations. As has been demonstrated by several local government representative bodies, State and Commonwealth Governments have failed over the past decade to ensure that funding even kept pace with CPI. From June 1998 to December 2001, Melbourne CPI increased 15%.³ The City of Whittlesea has entered its third Enterprise Bargaining Agreement since 1996, and wage increases total 23% over that period. Compulsory employer superannuation contributions have risen from 7% to 9% of salary during this period.

As numerous previous studies have shown, whilst grant funding has grown over time, that growth has matched neither overall CPI nor more specific growth in costs of service delivery. The State Government has been reluctant to explicitly account for indexation in either grant-based or output purchasing-based formulae as the discussion below will demonstrate. Given that much of the cost in delivering human services is in staff salary costs rather than materials, real wage growth necessarily makes service delivery more expensive.

Insurance costs have risen substantially over the past decade, particularly over the past two years. The recent High Court decision to rescind the “non-feasance” defence in public liability cases involving roads and footpaths greatly increased local government’s exposure to litigation, and hence increased an already large insurance cost. WorkCover increases have also added to Council’s cost of insurance.

³ ABS, 6401 Consumer Price Index, April 2002.

CASE STUDIES OF IDENTIFIED AREAS OF COST SHIFTING

Roads and Transportation

Roads and transportation provide an excellent case study of the effects of cost shifting. The City of Whittlesea draws funding from:

- State Government through VicRoads
- Federal Government through the Blackspot and Roads to Recovery Programs.

In particular, Council's relationship to VicRoads demonstrates the ways in which cost shifting and under-funding occurs. Key problems are:

- VicRoads' refusal to accept responsibility for infrastructure impacts beyond the kerbs of a main road
- Shifting of maintenance and capital works responsibilities on to local government
- Under-funding of identified projects
- Failure to consult local government on planning activities that affect Council
- Growing long-term infrastructure expenditure.

Roads

Roads represent a significant expense for local government. It is estimated that for 1999/2000 spending on roads accounted for around 15% of Victorian local government expenditure, or 9% if depreciation is excluded⁴. The Federal Government's Roads to Recovery program will provide \$1.2 billion Australia-wide in additional interim funding for local roads, and this is being managed by local government. This funding is due to cease in 2004/05, but the need for the funding is ongoing.

The City of Whittlesea has few complaints about pure cost shifting with regard to roads funding. Of more concern is local government's management of roads belonging to VicRoads, the so-called declared main roads under the Transport Act 1983, and the gap between existing funding and maintenance needs.

At present, many local governments carry out maintenance on main roads on behalf of VicRoads and are reimbursed for these services. There are 12 roads in this category maintained by the City of Whittlesea. For 2001/02 expenditure on these roads amounted to \$393,786 against VicRoads grants of \$349,859. This represents a Council contribution of around 12%. This has increased from \$19,229 in 2000/01 and \$25,177 in 1999/2000.

⁴ MAV, Trends in Local Government Finances, May 2001, p.10.

Aside from the fairly straightforward cost-shift onto local government in terms of costs incurred in carrying out work, there are less obvious cost shifting implications in this arrangement. These can be summarised as:

- Assumption of liability in the post-non-feasance environment
- VicRoads' reluctance to carry out identified work leading to a funding gap
- Fixed quantum of roads expenditure.

As the Victorian Department of Infrastructure's current discussion paper on roads standards and legal liability points out, the High Court's decision in *Brodie v. Singleton Shire Council*, which ended the non-feasance defence to public liability claims on public highways, has created considerable uncertainty for local government. One area of this is local government's role as maintainer of declared main roads.

In acting as an agent for VicRoads, Councils have the potential to be exposed to legal liability for roads not ultimately under Council management. Because this risk has not been quantified, the effect of the cost shift is not yet measurable. However, there are clear implications for Council with regard to insurance and liability pay-outs. There is a clear need for State governments to address this problem.

VicRoads has fixed the amount of maintenance expenditure it provides to the City of Whittlesea at between \$350,000 and \$375,000 since 1995/96. This de facto funding cap has occurred in the context of greatly increased traffic volumes in the municipality as the high population growth rate indicates. Consequently, some roads, such as Dalton Road, have experienced accelerated degradation in their condition. However, because VicRoads has not increased its expenditure in response to needs, a funding gap has emerged between identified problems and work done.

The City of Whittlesea's policy has been not to commit large amounts of ratepayer funds to repairing roads under VicRoads management. Hence a cost shift has occurred in effect to the community in terms of poorer quality roads and greater safety risks, which then impacts on Council through increased risks of liability for public accidents.

The Victorian Auditor-General in 2002 estimates the gap between the actual and required level of funding for infrastructure in Victoria (roads being the major component) is between \$1.4b and \$2.75b. Whittlesea's heavy car dependence, widely spaced road grid with poor connectivity and growing population mean that the municipality faces significant expenditures in the short term.

The Whittlesea Strategic Transport Infrastructure Study, conducted by Council in conjunction with the Department of Infrastructure and VicRoads, identified at least six necessary major road and public transport initiatives requiring capital expenditure including land purchases potentially totalling \$5 million.⁵

⁵ Whittlesea Strategic Transport Infrastructure Study, April 2002, pp.10-20.

School Crossing Supervisors

The school crossing supervisor program is an example of cost shift through continued community expectation and decreased State Government funding. Cost shifts are attributable to:

- Increased demand through population growth in the user age group
- Increased cost of service through wage, WorkCover and management cost increases
- Perpetual failure of VicRoads to meet stated funding levels.

VicRoads provides a subsidy for school crossing supervisors at crossings where traffic volumes are beyond an established level. Prior to 1993, the value of the subsidy was around 2/3 of wage costs with the remaining 1/3 being provided by local government.

Since January 1993, the situation has become more complicated. The State Government announced a reduction in the value of the subsidy to 50% of wages and on-costs. The City of Whittlesea employed 58 crossing supervisors in 1992/93, which grew to 85 by 2001/02. The level of the VicRoads subsidy was approximately 45% at both these points, indicating at face value relative stability in State Government support. It is significant that the subsidy has fallen short of its 50% target for a decade.

Council's contribution in 1996/97 was \$157,085. This rose to \$198,416 in 2001/02. In 2001/02, the difference between the actual subsidy and the target would have provided for four extra crossing supervisors.

The City of Whittlesea has encountered a cost shift through increased on-costs, and this has led to a reduced service for the community. Administration, employment and training costs (estimated by MAV at 35% of salary) have not been covered in VicRoads' subsidy formula.

Because VicRoads has consistently under-estimated on-costs for crossing supervisors, Whittlesea has faced an increased burden. This has been transferred to a reduction of service. Prior to 1993, supervisors were employed for two hours per day, but after 1993 the service was reduced to one and a half hours. The State Government, therefore, is now subsidising less than 50% of a service which has been cut by 25%. Continued failure to reflect on-costs will see crossing supervisors employed for an hour a day.

The City of Whittlesea's growth rate places it at the higher end of the scale in terms of demand for school crossing supervisors. With increasing need for supervisors in the coming decade, it is likely that the VicRoads' subsidy will fall further behind, leaving Council to bridge the funding gap. Community expectations have grown up around Councils as providers of the service. To prevent further deterioration of the service and to allay community concerns about safety, it is likely the City of Whittlesea will be expected to make ever-greater contributions.

Traffic Signals

The City of Whittlesea has experienced a cost shift in maintaining traffic signals as a consequence of a policy shift by the State Government. Prior to 1990, VicRoads had responsibility for all traffic signals, both pedestrian and intersection, on main and local roads. In 1991, a *Whole of Government* directive made local government responsible for traffic signals on local roads without consultation.

Since 1991, the City of Whittlesea has borne the responsibility of maintaining five sets of pedestrian lights. Currently, the annual cost for this maintenance is \$2,000 per set of lights, a total of \$10,000.

School Parking Facilities

The City of Whittlesea, as a growth Council, faces increasing pressure on traffic management around state schools. Currently, private schools are required to apply for planning permits and carry out the construction of parking facilities appropriate to the size and population of the school; however, state schools are not. Local government has increasingly been held responsible for carrying out works to increase parking facilities around state schools in response to community concern over safety and amenity.

The City of Whittlesea was able to successfully lobby the Department of Education over providing kerbside parking facilities for South Morang and Plenty Parklands Primary Schools. However, Mill Park Heights Primary School poses major traffic management and parking problems, all of which have created extra cost for Council.

Mill Park Heights Primary School has a population of 1200 hundred students, making it the largest state school in Victoria. In part this is due to a State Government decision to remove a second primary school in the area, making one school responsible for two schools' students. As the school is surrounded by roads on four sides, all of which feed into courts protected by *No Standing* signs, pick-up and set-down traffic at the school is extremely heavy. No adequate kerbside parking facilities exist due to State Government refusal to fund capital works.

As a result, the City of Whittlesea has spent approximately \$150,000 in installing traffic management devices in the surrounding roads to cope with the traffic. This represents an instance of State Government shifting both responsibility and cost on to local government.

Public Transport Infrastructure

As previously mentioned, the City of Whittlesea is heavily car dependent and has relatively poor public transport networks. However, as a growth municipality, Whittlesea faces increasing demand for public transport services in new housing estates and growth corridors.

An example of cost shifting can be found in the provision of public transport infrastructure. The City of Whittlesea recently obtained agreement from the Department of Infrastructure to fund bus services into the newly-established Mill Park Lakes estate. Two bus companies received \$200,000 each to fund a bus and driver so a bus route could be established for the estate. However, Council has been required to fund the construction of bus stops and indented bus bays to make the service both useable and compliant under the Disability Discrimination Act as all the roads involved are local roads. Had any main roads been involved, Council would still have had to fund bus shelters, as VicRoads believes its responsibility ends at the kerb.

Cost estimations for the project suggest Council will have to provide up to \$500,000 in infrastructure. A key road for the route, Findon Road, lies above the surrounding land. To construct adequate bus bays and shelters, it is estimated that Council will have to spend \$360,000.

Whilst not a direct cost shift, the above example demonstrates the ways in which State and Federal Government decision-making can have significant cost impacts on local government. Adequate policy and infrastructure planning remains a major goal for local government in maintaining control over costs and service delivery.

Libraries

The City of Whittlesea is a partner in the Yarra Plenty Regional Library service along with the City of Banyule and the Shire of Nillumbik. The service maintains branch libraries at Diamond Valley, Eltham, Ivanhoe, Lalor, Rosanna, Thomastown, Watsonia and Mill Park as well as a mobile library service.

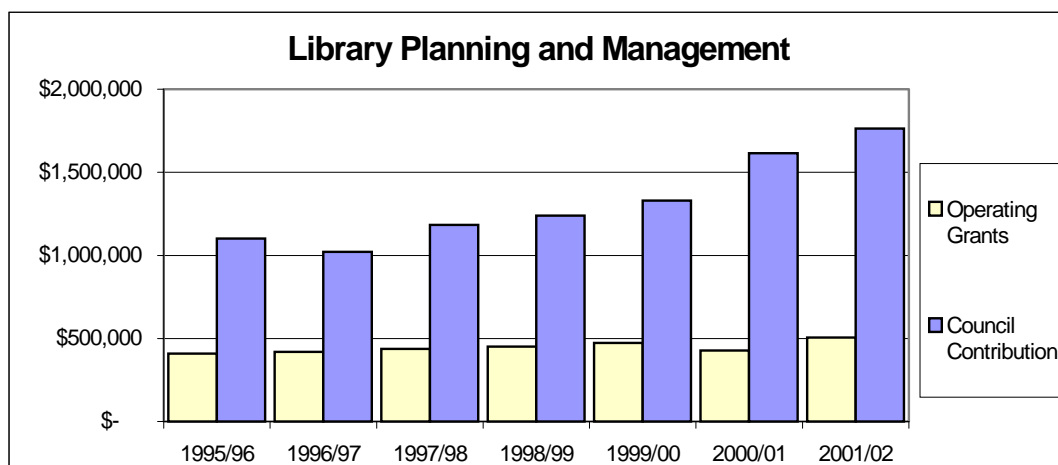
The proportion of library expenditure funded by grants has decreased significantly due to:

- Very limited growth in grants quantum
- Significant expenditure on library infrastructure
- Large increases in public use of library facilities
- Increased staff costs.

It has been shown that across Victoria the “share of total spending represented by public library grants [has] fallen from 51% in 1976/77, to less than 22% by 2000/01. By comparison the proportions represented by Local Government contribution and other revenue sources [have] risen from 47% to 67% and 3% to 11%”.⁶

⁶ MAV, State Government Cost Shifting in Specific Purpose Programs Delivered by Local Government, February 2001, p.6.

The State Government contribution to Yarra Plenty Regional Library has decreased from 46% in 1989/90 to 22% in 2001/02. Whittlesea’s contribution to library funding has increased 24% over the same time period, from around 54% in 1989 to 78% in 2000/01. Whittlesea’s dollar contribution rose from \$1,101,858 in 1995/96 to \$1,762,881 in 2001/02. The grant has been far out-stripped by CPI, growth in services and cost of delivery. The graph below shows the increasing contribution Council has made.



This cost shift has occurred in the context of increasing service needs and greater complexity of services. Use of libraries by Whittlesea residents has doubled since 1991, and this is not simply the result of population growth. In fact, loans per capita increased from 7.84 in 1991 to 10.5 in 2000. In this time period, Yarra Plenty Regional Library added many services, such as Internet access, word processing and school curriculum support.

Yarra Plenty Regional Library is a clear example of cost shift to local government. The service is a vital part of local government’s role in the community. Whittlesea has adapted to a changing environment by pooling its resources with other Councils to reduce costs and increase efficiencies. However, State Government contributions have decreased markedly in real terms. To maintain an appropriate level of service, Whittlesea has been forced to greatly increase its contribution.

Home and Community Care (HACC)

It has been observed that HACC funding is the single largest specific-purpose funding program for Victorian Councils⁷. It is also one of the major areas of concern for Councils, as it is an area subject to both cost shift and expansion in responsibilities. The trend, noted by the Commonwealth Grants Commission, of Councils moving away from property-based services to human services is exemplified by HACC.⁸

⁷ MAV, State Government Cost Shifting in Specific Purpose Programs Delivered by Local Government, February 2001, p.4.

⁸ Commonwealth Grants Commission, Review of the Operation of the Local Government (Financial Assistance) Act 1985, p.xiv.

HACC services encompass:

- Home care
- Home and property maintenance
- Personal care
- Delivered meals
- Respite care
- Assessment and care management
- Other support services.

The City of Whittlesea has experienced both under-funding and cost shifts in HACC service areas. Funding problems have arisen in the following ways:

- Strong growth in the need for services due to Whittlesea's demographic characteristics
- Long-term under-funding, leading to increased Council contributions
- Increased cost of service delivery through salary and management cost increases
- Increased complexity of services due to lack of ancillary service resources
- Funding models which do not reflect real-world costs.

HACC funding is nominally matched 60%/40% respectively by Commonwealth and State Governments with funds distributed to service agencies by the relevant State Department. The State Government's 40% contribution carries an imputed local government contribution as well⁹. For all but Service System Resourcing components (which are block funded), the Victorian Department of Human Services provides unit funding for HACC, that is, it purchases units of service outputs from local government. The prices determined for each unit of service have not reflected the actual cost of service since the service began, and there is strong evidence to suggest that local government contributions are increasingly greatly over time.

The MAV has calculated that DHS unit prices for HACC services were between 8% and 36% below the actual cost of delivery by Councils. Further, they note that local government had to spend \$11 million in 1999/2000 to continue to provide required services.¹⁰ The lack of even basic CPI indexation is testament to cost shift to local government.

To illustrate this further, Council has conducted a study into the unit cost of delivering HACC services. It was found that Council's costs exceeded the Government unit cost in all HACC services; this conclusion is the same as a study conducted by the MAV on Victoria-wide unit costs in 2001.

⁹ MAV Submission, State Budget Priorities for 2002/03, p.8.

¹⁰ MAV, State Government Cost Shifting in Specific Purpose Programs Delivered by Local Government, February 2001, p.6.

This can be shown as follows:

| | HACC funded unit cost/ hour of service | Cost to Council/ hour of service |
|----------------------|---|-------------------------------------|
| Home Care | \$22.75 | \$24.18 |
| Personal Care | \$26.01 | \$31.92 |
| Respite Care | \$23.51 | \$30.73 |
| Delivered meals | \$ 1.10 | \$13.64 |
| Property maintenance | \$34.00 | \$47.25 |

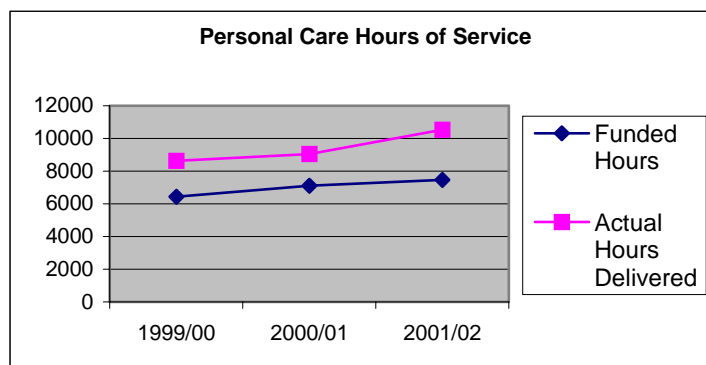
Not only does funding not keep up with the real cost of delivering services, but it also does not keep up with the growing demand for services. The State Government’s own Relative Equity Formula indicates a major funding shortfall in the City of Whittlesea.

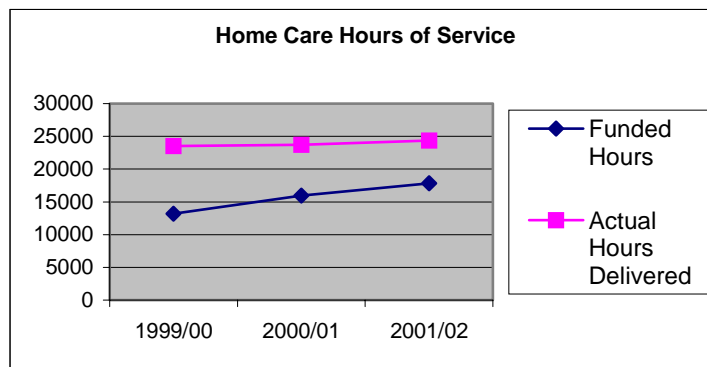
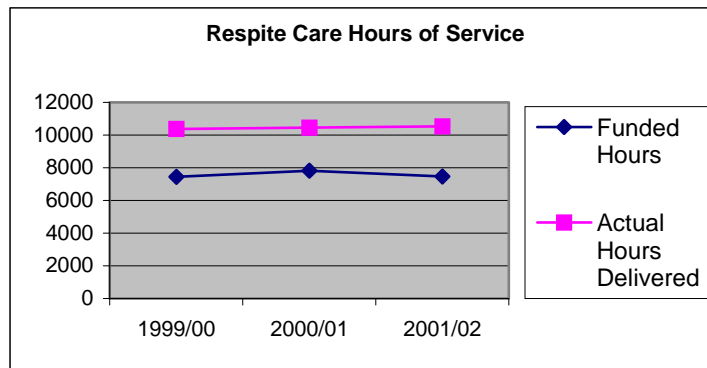
The Relative Resource Equity Formula (RREF), which is used to distribute HACC growth funds based on differing degrees of need, was revised in 2000. Under the old RREF, agencies in the City of Whittlesea received \$3,473,466 in recurrent funding against a desired funding level (as identified using the formula) of \$4,598,170, a shortfall of \$1,124,704 or 24%. A straightforward application of the new RREF, with no adjustment for the historical under-funding, does in fact reduce the shortfall. It does not, however, remove it – under the new model, the gap between identified desired funding and actual funding still stands at 19%, or approximately \$800,000.

To cover the gap, numerous program areas have faced increased user charges, increased Council contribution or a combination of the two. Examples can be found in home support, delivered meals, and property maintenance.

Home Support and Social Support

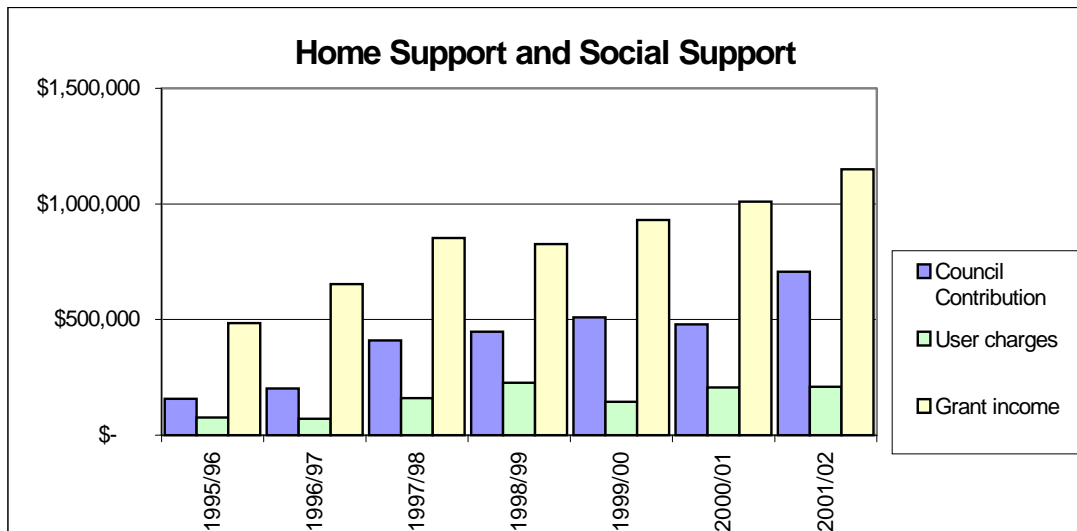
Home Support and Social Support seek to provide care for people in need and their carers through assisting with daily living tasks. Demand for services is growing at an ever-increasing rate and State and Federal Government growth funding is not keeping up. The 70+ age group in Whittlesea is increasing at a compounding rate of 7% per annum. This translates into increasing demand for services so that the gap between the hours funded and the hours delivered is growing. This is illustrated in the tables below for Personal Care, Respite Care and Home Care.



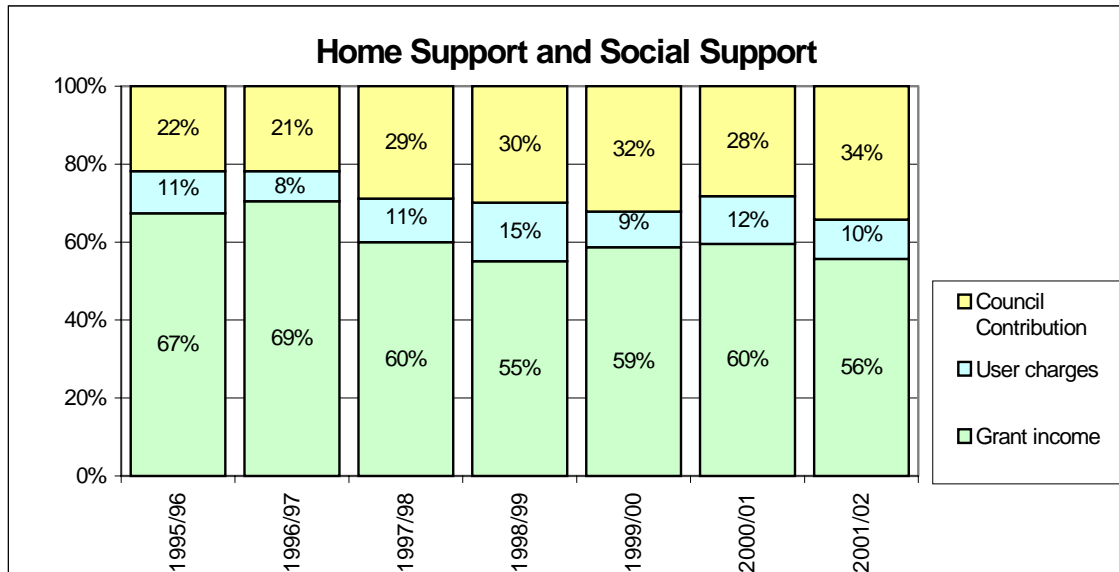


The ongoing need to provide more hours than are funded has resulted in an increased Council contribution.

The following graph shows the increasing cost of providing Home Support and Social Support services, excluding funding from the Department of Veterans' Affairs.



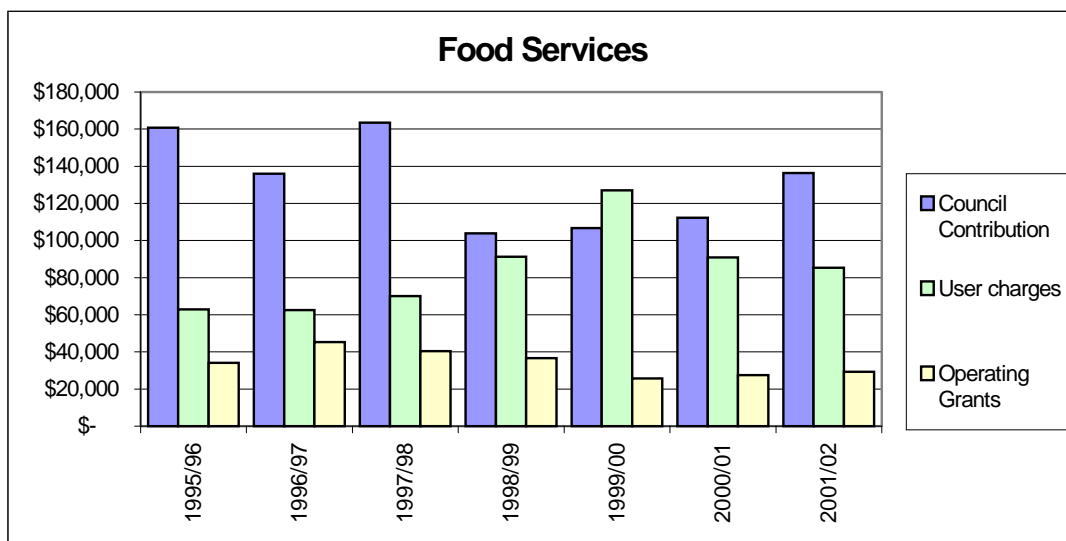
The increasing proportion of this expenditure borne by Council can be seen in the following chart:



Delivered Meals

Delivered meals, or Meals on Wheels, has become a high-demand service expected to be provided by local government. For the past decade, the State Government has provided funding for the program priced at \$1.10 per meal delivered. The City of Whittlesea currently spends approximately \$13.64 per meal and user fees are added to cover the total cost of delivery. From supporting 20% of the cost over a decade ago, grants have fallen to 12%. Since 1995, user fees have risen from 24% to 34%.

The graph below demonstrates the cost shift.



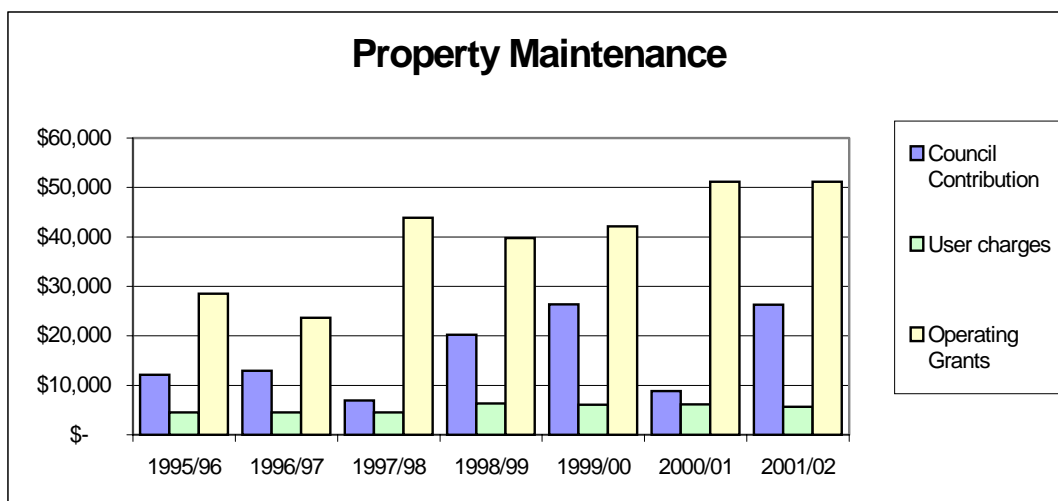
In 1999 the City of Whittlesea signed a new meal supply contract, which initially reduced costs, bringing the grant proportion of the expenditure much closer to Council's. However, increases in both the numbers of meals delivered and the cost of delivery since then have forced Council to increase its contribution. It is important to note that cost shifting affects not only local government, but also directly affects the target population through increased service fees and decreased service levels.

In the case of delivered meals, the target population has faced an increase in their contribution from parity with grants in 1990 to 34% in 2001/02. The ability of the service to meet its objectives of providing regular low-cost meals to disadvantaged people has been impaired. This fact is tacitly acknowledged by the Victorian Department of Health, which in HACC Program Management Circular No.3 stated that unlike other client fees which must be used to fund additional services, user fees for delivered meals are "used to subsidise HACC and agency contributions".¹¹ That user fees are needed to subsidise the State-administered grant is commentary enough.

There is no sign of the funding gap being addressed by either an increased fixed unit price or an indexed unit price. Regardless of future cost control efforts, fees to delivered meals customers will increase.

Home and Property Maintenance

An integral part of HACC is the home and property maintenance service, in which local government co-ordinates the provision of home handyman services for people unable to carry out property maintenance by themselves. This area of service has faced significant cost increases recently, unmatched by increased funding. The graph below illustrates Whittlesea's ever-increasing contribution.



Grant support has decreased relative to total cost. To avoid increases in user fees, Council's contribution has increased from 27% to 32%. User fees have made up the cost difference since 1995, accounting for up to 11% of the service cost.

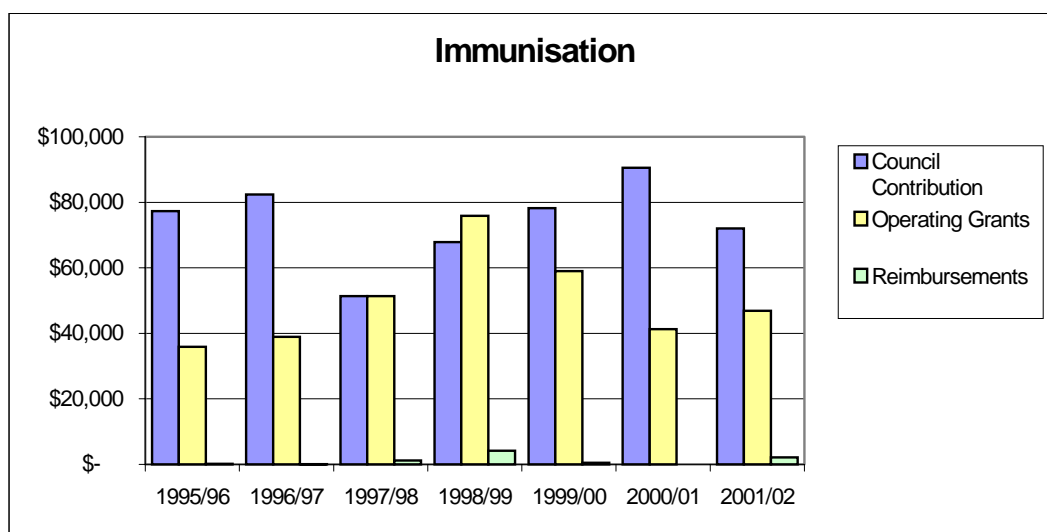
¹¹ Victorian Department of Human Services, HACC Program Management Circular No.3, <http://www.dhs.vic.gov.au/acmh/hacc/no3.htm#13>

Immunisation

Immunisation has long been an expected part of local government’s services to the community. Whether delivered through Maternal and Child Health Centres or schools, the community has come to view local government as the agency responsible for administering child immunisation services. This is given legislative recognition in the Health Act 1958 (Vic), which states that local government must “seek to prevent diseases, prolong life and promote public health through organised programs including [...]

(g) co-ordinating the immunisation of children living or being educated within the municipal district”.¹²

The graph below shows the growth in Whittlesea’s contribution.



One of the most significant changes in funding arrangements concerns Commonwealth Government reimbursement rates and the General Practice Immunisation Incentive Scheme. The introduction of the Australian Childhood Immunisation Register (ACIR) in 1996 shifted the funding arrangement from direct grant to a reimbursement of \$6 per returned immunisation record. In the first instance this created a potential cash flow and budgeting problem, with services provided in advance of funding.

In 1998, the introduction of the General Practice Immunisation Incentive Scheme effectively created a two-tier funding model. The traditional provider of childhood immunisation services, local government, suffered relative financial disadvantage as a result of Federal Government policy. Under the GPII, doctors in general practice gained access to the ACIR reimbursement and were paid a bonus of \$18 for conducting immunisations, as well as claiming the standard Medicare consultation fee. Local Councils were not granted such a bonus at any time during their long provision of the service.

¹² Health Act 1958 (Victoria), Section 29A.

Hence Federal Government policy has created a situation in which local government has access to less than a quarter of the funding available to general practitioners. Additionally, the reimbursement has not been indexed to CPI or growth in cost of employment, and has remained at \$6 since 1996.

Preschools

Preschools have been a source of controversy for Victorian local government authorities for some time. The reforms to preschool management and funding that were implemented in 1994 brought with them an increased management burden on parents and a decreased level of funding from the State Government. Between 1980 and 1993 salary subsidies allowed for ten funded hours of service per week for four year old children and capital grants of up to \$30,000 were provided for preschool buildings.¹³

In 1994, the per capita grants system was introduced, causing an overall reduction in the level funding.¹⁴ In fact, as the Review of Issues that Impact on the Delivery of Preschool Services to Children and Their Families in Victoria (the Kirby Report) points out, an earlier cost shift had occurred when the Commonwealth ceased funding preschool education in 1985. The Kirby report echoes the Victorian Auditor-General's finding that a great deal of the cost of preschool education had been shifted directly on to parents¹⁵.

The City of Whittlesea would add that local government has incurred a large amount of those costs as well. Council has not received a capital grant for building a preschool facility in the past six years and hence has had to provide significant capital expenditures to meet the growing needs of the municipality. Accompanying this is the flow-on costs of building maintenance and eventual refurbishment. Changes in State Government policy with regard to building standards have required Whittlesea to fund compliance costs by itself. The City of Whittlesea was required to spend \$66,000 in preschool building maintenance alone in 2000/01.

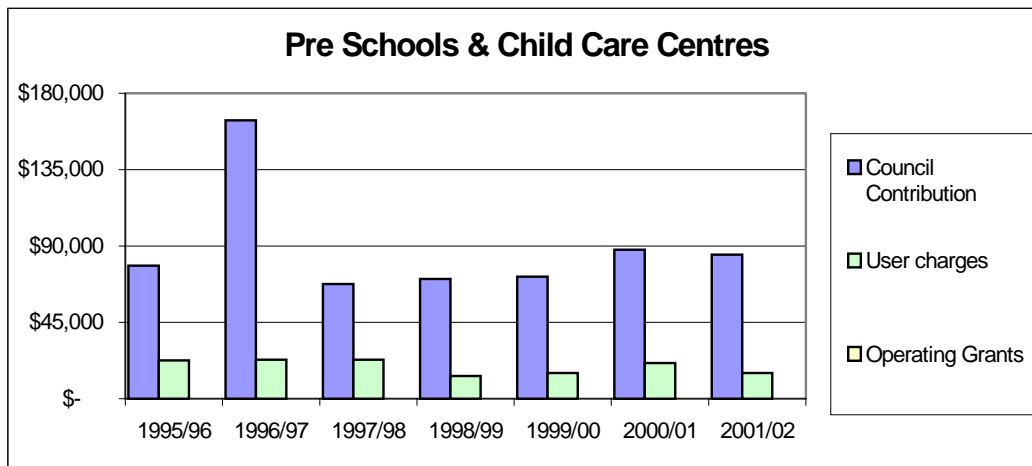
In addition to these capital expenditures, numerous preschool management and administration costs have been incurred, such as the central enrolment scheme.

¹³ Kindergarten Parents Victoria, Submission to the Review of Issues that Impact on the Delivery of Preschool Services to Children and Their Families in Victoria, November 2000, p.8.

¹⁴ Peter Kirby and Sue Harper, Review of the Issues that Impact on the Delivery of Preschool Services to Children and their Families in Victoria, June 2001, p.8.

¹⁵ Auditor-General of Victoria, Special Report No.55, Child Care and Kindergartens, p.97.

The graph below demonstrates that two cost shifts have occurred: one to local government and one to parents.



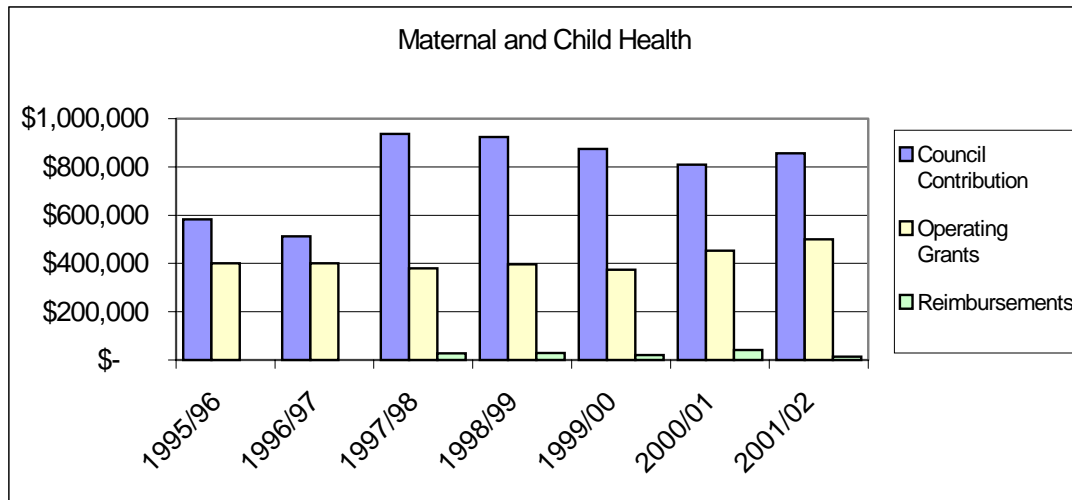
Council has had to frequently provide administrative support, training and management relief to ensure that preschools remain operational.

Maternal and Child Health

Maternal and Child Health (MCH) is regarded by the City of Whittlesea as an integral part of its service to the local community. Much like HACC, it is funded on an output purchasing model, that is, unit costs for a target population. The MAV has previously noted that MCH funding was fixed at the same per nurse hour rate from 1997/98 to 2000/01 (\$22.11 per hour funding rate), and that it only partially addressed CPI increases in 2000/01.¹⁶

¹⁶ MAV Submission to the State Budget 2002/03, p.18.

The graph below demonstrates the erosion in the value of State Government funding and the consequent rise in contributions from the City of Whittlesea.



Whilst State funding has fluctuated to its current position of slight growth, the City of Whittlesea has faced increased costs and increased service expectations for the past five years. Costs and service levels have increased in the following ways:

- Because the funding formula uses the previous year's data, the City of Whittlesea as a growth municipality faces cash flow issues as a result of perpetual funding lag.
- Transport costs are higher in the City of Whittlesea as it encompasses a large rural area.
- Because the service infrastructure in the municipality is comparatively lean, MCH must deal with complex multi-issue cases, requiring more unfunded time.
- WorkCover costs have grown.
- Nurse administration and support costs have grown as workloads and stress levels have risen.

Just as importantly, numerous service responsibility shifts have occurred, with State Government loading the standard half-hour consultation with many more tasks. Examples include:

- Drug and alcohol identification and referral programs
- Domestic violence identification and referral programs.

There is no dispute over the value and importance of these initiatives. What they demonstrate, however, is a pattern of State and Federal Government responsibility shifts in which local governments are made the service delivery agents of policies they have had no input into and for which they have received no extra funding. The rate per nurse hour has not been adjusted nor has funding been made available for extra hours to take account of increasingly complex consultations.

Local Laws

Local government's role as a monitor and enforcer of local-level regulations has grown considerably over the past decade. The Local Government Act's declaration that Councils are to "provide for the peace, order and good government of [their] municipal district[s]"¹⁷ has come to cover an increasingly large number of local laws enforced through numerous other pieces of legislation. In short, there has been a trend towards making local government the enforcement agency of legislation developed outside of local government's scope. Examples of this trend include animal registration and environmental protection.

Animal registration procedures changed in Victoria in 1995 with the introduction of the Domestic Animals Act (1994). This made local government the authorities responsible for maintaining animal registration programs for both cats and dogs. Whilst it granted the power of charging fees, it also created costs in enforcement and program management. Further, it introduced a levy on Councils of \$1 per registered animal to pay for owner education programs. This levy increased to \$2.50 per registered dog in 2001.

The City of Whittlesea estimates that it has remitted at least \$40,000 per annum to the State Government. As most local governments have noted, there has been no appreciable benefit in terms of increased education activity or minimisation of Council enforcement work. In fact, Whittlesea, like other Councils, has faced increased enforcement duties to comply with more stringent legislation on dog control. Hence Whittlesea has acted as manager, enforcer and tax collector – all by extension of State Government legislation.

The Environment Protection Act was revised in 2002. Part of the revisions included empowering local government to prosecute offenders under the EPA. This new enforcement opportunity represents an expansion in roles such that local government is now regarded as the agency responsible for enforcing EPA laws on litter, noise and pollution. The Environment Protection Authority's role as enforcer has been shifted to Councils. Whilst there is the possibility of obtaining revenue through fines, in most cases the processes involved in enforcing the legislation have proved costly and time consuming.

Tobacco Control

An exemplar of the trend towards expanding local government's roles through delegating enforcement duties is the change in tobacco control through the various Tobacco Acts. Since 2000, increasingly strict tobacco control legislation has addressed the sale of tobacco to minors, public smoking areas and public health warning signage. The enforcement duties for these laws have fallen to local government after the State Government created a community expectation of tough enforcement. The City of Whittlesea has received \$20,000 in non-recurrent funding to enforce the legislation preventing retailers from selling tobacco to minors. All other enforcement costs have been borne by Council.

¹⁷ Local Government Act 1989 (Vic.), s.6 1(a).

Valuations and Revenue

The introduction in 1998 of Valuation Best Practice by the Victorian Valuer-General required of Councils new standards of valuation detail and frequency. As well as increasing the revaluation frequency from four years to two years, Councils have been required to investigate properties more extensively to arrive at a valuation. The increased compliance cost has been treated as simply a cost for local government to bear as part of obtaining property-based revenue, i.e. rates.

The effect of this regulation when combined with rate capping has been to limit local government's ability to raise revenue and to make revenue more expensive to obtain.

OTHER AREAS OF COST AND RESPONSIBILITY SHIFT

There are numerous other areas that represent a shift to local government in terms of increased compliance duties or impacts from changes to State and Federal Government legislation. While these areas are not fully explored in this submission, they point to other areas which need to be examined in the context of compliance and shifting of responsibilities.

Building Services

◆ Building Surveyor Inspections

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).

◆ Consents and Reports – Building

Proposed laws regarding “consents and reports” will provide additional work for Building Surveyors which fees will not cover. The Building Commission (BC) previously charged \$200 for this service whilst LGAs will only be allowed to recover \$100.

◆ Increased Building Surveyor Audits

Increased audits of Building Surveyors (by Tax Office, Building Commission, etc) have a substantial impact on resources.

◆ Lodgement Fees

Legislated lodgement fee of \$15.00 for provision of information (to solicitors, surveyors, etc) is insufficient (with more realistic cost estimates in the vicinity of \$150).

◆ Section 29 Building Act Demolition and Report

Section 29 Demolition and Report is a complex piece of legislation to administer and the fee is capped at \$50.00 (with more realistic cost estimates in the vicinity of \$100).

Building Services Cont'd

◆ Sewerage/Water

Relevant sewerage and water authorities are no longer checking plumbing water/sewerage fixtures. Further, no assistance/resources are provided when fixtures are causing nuisance. This has become responsibility of LGAs.

◆ Private Surveyors Complaints

The BC is now referring all complaints about private surveyors to LGAs, even though they are the responsibility of the Commission.

◆ Private Surveyors Increase in Liability Premiums

The BC has advised LGAs that there will be a dramatic increase in workload for Councils due to insurance costs spiralling for private building surveyors. Private surveyors have advised the BC that as the increase in premiums is not sustainable some surveyors will be choosing not to renew their registration.

Public Health Services

◆ Food Act

Food Act requirements have increased significantly. The only source of income is from the annual registration fee which does not cover the administrative costs of enforcing the Act.

Statutory Planning

◆ Rescode

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).

◆ Planning Fees (general)

Inadequate set planning fees which do not cover the cost of administering the Planning and Environmental Services Act.

Integrated Planning

◆ Economic Development

Prior to 1994, economic development for a local area was not a mainstream local government activity. It is now a requirement as part of the Local Government Act.

◆ Asset Renewal

State Government is 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.

◆ Road Safety – Strategic

There is an expectation that LGAs will now have increased roles and responsibilities in respect of road safety and driver education without access to traffic infringement revenue.

Leisure, Culture and Youth Services

◆ School Focussed Youth Services

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.

◆ FReeZA

Funded since the program's inception in 1997/98 at \$20,000 per year. Current year funding has been reduced to \$17,500.

Community Planning

◆ Gambling

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.

◆ Housing

New state housing initiatives (e.g. Social Housing Innovation Project) focus on partnership arrangements for the provision of community housing in a local area (between State, LGA and Community Housing organisations). Costs for Council can include land provision, rezoning and lease/legal documentation.

◆ Disability Discrimination Act

Ongoing implications for upgrade in infrastructure to meet requirements.

Resources

◆ MFB Levy

Councils have been required to provide funds to the MFB to ensure continued service for many years.

CONCLUSION

The City of Whittlesea submits that cost shifting has occurred, that it has been funded out of user fees and ratepayer funds and that the gap between service costs and grants is widening.

Whittlesea believes that cost shifting is a smaller part of a broad problem in the relationship between State, Federal and local governments. This problem encompasses:

- Ongoing transfer of costly roles and responsibilities to Councils
- Use of legislative power to make Councils accountable for services they did not create
- Persistent under-funding of services greatly needed by the community
- Failure to adequately include local government in infrastructure and service policy and planning.

The concept of State and Federal Government partnerships is recognised as a potentially beneficial direction, but is also regarded as potentially another method of transferring responsibilities and costs to local government.

In conclusion, Whittlesea believes that:

- Cost shifting must be addressed at a broader level than simply correcting indexation shortfalls on programs
- Direct Federal funding can be useful for certain special purpose programs, but abandoning the States Grants Commission structure is unwise
- The quantum of funds available to local government must grow if service levels, user fee and infrastructure degradation problems are to be addressed
- There must be recognition that human services are vital and have cost structures that go beyond State and Federal funding formulae
- Local government must be accepted as a partner in *decision-making* about policies, funding models and infrastructure planning, not just service delivery.