
COMMONWEALTH INQUIRY INTO COST SHIFTING SUBMISSION BY MANNINGHAM CITY COUNCIL

INTRODUCTION

The City of Manningham is pleased to present a submission to the Federal Cost Shifting Inquiry and commends the Government for taking the initiative to address some long-standing financial issues facing the Local Government Sector. Council's submission will mainly deal with the following Term of Reference:

Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.

It is understood that the Municipal Association of Victoria is responding to all the Terms of Reference from a sector-wide perspective.

KEY ISSUES

1. Financial Capacity

Local governments collectively receive an average of 3% of national tax revenues generally through the collection of rates. Local Governments are experiencing a steady decline in funding from the State and Federal Government at a time when the State Government has experienced a windfall from GST revenue and has increasingly introduced compliance requirements.

Current cost shifting by State Government to Local Government has been characterised by intrusion into local affairs, introduction of more and more compliance requirements and lack of indexation of the funding that does exist.

The use of the Consumer Price Index as a basis for increases in grants is problematic due to the fact that Council's costs increase in line with increases in adjusted average weekly earnings. As a result, the real value of grants is continually eroded in real terms.

The combined impact of increasing state requirements and decreasing state support is having a devastating effect on local communities. The capacity of the State Government to mandate spending or compliance issues without a corresponding transfer of revenues or taxing authority is a cause for concern. Within this context, Council believes there should be better opportunity for public debate on the impact of proposed legislation and the possible cost ramifications.

Local Government's capacity to deliver services is in part dependent on support from other spheres of government. The existence or absence of such support often weighs heavily in a rating decision. Manningham City Council has shown good financial performance despite significant financial pressures stemming from large infrastructure financing needs and intergovernmental reforms. The council's ability to maintain sound financial performance will therefore to a large extent depend on the resolution of the problem of cost shifting by the State Government.

2. Spheres of Government

There is currently a substantial discrepancy between expenditure responsibilities and revenue raising effort between spheres of government. Local governments face increasing expectations from communities for new and improved services, as well as asset management and refurbishment. The volatility of this situation is largely explained by:

- Significant need for infrastructure investments;
- A range of added responsibilities passed down to the local government level without adequate support. These added responsibilities create service mandates that entail spending growth that exceeds the pace of revenue growth when revenues are tightly controlled and inflexible.

Both the State and Federal Governments acknowledge that local governments in Victoria have significant infrastructure demands to be resolved. A report completed for the State Department of Infrastructure identified a significant deficit in spending by Victorian local governments on renewal of infrastructure. In this context Councils are under significant pressure to increase the proportion of spending in each budget toward renewal of infrastructure and experience difficulty in raising sufficient revenue to meet capital expenditure requirements.

The State Government in Victoria has experienced a windfall in revenue as a result of the introduction of the Goods and Services Tax. Despite such growth in revenue, the State Government continues to inadequately fund programs, cost shift areas of responsibility and introduce new compliance requirements.

Council strongly argues that the Federal Government should by-pass the State and provide local government with an appropriate share of taxation revenue.

3. Cost Shifting

Cost shifting by the State to local governments has been an ongoing concern for some years. The implication of cost shifts from both Commonwealth and State Governments has been a significant issue for local governments that have had to put increasing pressures on their own rate bases.

The City of Manningham has undertaken some basic analysis assessing the impact of cost shifting onto the Council by the other spheres of government. We have attached a table to this submission outlining the major areas, which have been subject to compliance costs, cost shifts, lack of realistic indexation or cost cutting.

As a result of all the above factors, we believe that the funding position of local government has been eroded. Many of these factors are inter-related and each has added a cumulative impact.

The erosion of local government's funding position has occurred across a range of programs at both the Commonwealth and State level. There appears to be an expectation that local government has the capacity to absorb these effects despite the inherent structural barriers preventing growth in local government revenue streams.

The medium to long-term impact of this expectation on local government, and the cost shifting it involves, is substantial. Coupled with community expectations and pressure that local government will fund new and emerging service requirements, the effects of cost shifting are stretching council finances to breaking point.

Council wants to particularly highlight the following issues:

COMPLIANCE COSTS

The attached table highlights the myriad of areas where compliance requirements have been imposed by the State Government without adequate funding support or due consideration of the additional resources that local governments may require. Whilst Council would most often agree with the rationale of the legislation and the community outcomes, compliance is also often costly. Council argues that the financial impact of proposed legislation should be fully analysed and adequate support should be given where required.

ROAD FUNDING

1. Capital

While there has been considerable funding for the major arterial roads in local government, VicRoads (the State Road Authority) is now steadily reducing its funding of major arterial roads. Councils are therefore under increasing community pressure to fund major works. Local examples of this issue are Templestowe Road, Springvale Road, Thompsons Road, King Street, Anderson Creek Road and Bulleen Road.

The following table demonstrates the declining trend of VicRoads funding for major Roads:

1998/99	1999/00	2000/01	2001/02
\$5.58	\$5.1M	\$2.0M	\$0.5M

Whilst in some instances VicRoads funds major roads directly, it has decided that it is only responsible for the works associated with the road pavement and not for peripheral works. This is yet another example of a cost shift. In addition, Council is expected to participate in the costs of community consultation and associated administration of major road construction projects.

2. Maintenance

There has been no indexation on VicRoads Main Road routine maintenance funding for at least the last five years. Currently, VicRoads fund maintenance to a level of 1% of the asset value and they admit that the level should be around 2% to meet appropriate community standards. This again places pressure on local councils to fund the gap. The local community is therefore required to double fund road improvements, once through fuel taxes and then through rates. In addition, VicRoads has limited the cost of maintenance to the through carriageways and will not fund side roads and intersections to the property boundaries as it did previously.

3. Drainage

The State Government, through Melbourne Water, levies a Drainage charge in the Metropolitan area of some \$92 million. Of the \$92 million, \$42 million is paid back to the Victorian Government as a dividend and loan repayments to Treasury. This situation leaves Councils with the problem of funding the shortfall to the point that there is now a backlog of some 100 years of drainage work by both Melbourne Water and Local Government.

4. Public Lighting

The State Government cost shares only about 50% of the lighting on declared roads and Council pays 100% of the cost. This effectively means that Council is subsidising the State Government to the tune of some \$150,000 annually.

COMMUNITY SERVICES

1. Home and Community Care (HACC)

The HACC Program formally commenced in 1985 with an Agreement signed between the Commonwealth and State Governments. Home and Community Care represents one of the most expensive and politically sensitive spending items for all spheres of government. In addition, increasing demand caused by an ageing population is causing home care costs to grow. Balancing the costs and expectations for aged care with the resources available presents tremendous challenges to local government.

The HACC Program provides a range of services which assists frail, elderly and younger disabled persons to remain living in their own homes for as long as possible, thus avoiding premature or inappropriate entry into supported accommodation such as high and low level care or other forms of residential care.

Victorian local government has historically been the major provider of home-based community care services in the State. Victorian Councils are also a major contributor to the HACC Program in their own right with close on \$80million allocated annually from Council revenue to aged care and disability services.

At the formal commencement of the Program in terms of cost distribution, general home support required 20% Council/Provider funding with Respite/Personal Care (Specific Home Support) requiring 0% Council/Provider funding. In averaging out the hours distribution, it could reasonably be assumed that local government funding would be around 15% of the total program funding required.

Manningham City Council currently contributes 29% (\$1.48M)

Unit cost indexation and minor growth provided to the Program through Commonwealth and State funds is insufficient to address the true unit cost of service provision, let alone the recognised growth in the ageing population and the resultant demand for HACC services.

Based on the recognised growth in the ageing population (including the Commonwealth's Intergenerational Report—May 2002), the Program is not sustainable in its current form without real growth funding and a return by the Commonwealth and State Governments to realistic funding levels, annual adjustments and a growth factor.

Victorian Local Government is responding to the funding shortfall by restricting access, rationalising service responses and implementing waiting lists. A number of studies into the HACC Program are in fact suggesting that the number of hours provided to Clients is insufficient to meet the objective of the Program, and this is possibly demonstrated by an increase in the desire to access supported accommodation.

In addition to the actual cost shifting to local government, the level of client care required, and expected, has intensified to the point where high level personal care is becoming a greater priority than general home support (lower level care) and this is attributable to the fact that many older residents are unable to access supported residential care, and also the Early Discharge from Acute Care Policy has a direct impact. All of these are at the expense of preventative and maintenance care/intervention.

The impact is that HACC services tend to be reactive and not targeted at "keeping people living in their homes longer in order to prevent / minimise early entry into supported accommodation". This is at odds with the program intent and concentrates scarce resources into short term responsive / reactive support at the expense of longer term sustainable support.

Manningham City Council cannot continue to fund the shortfall of Commonwealth/State funding, to address both indexation and growth factors, and

requires \$715,000 (recurrent funding) in order to bring the funding distribution back to close on the original program agreement and intent.

In summary, the Commonwealth and State funding is, and has fallen, significantly short of required levels for the current program and when forward projections are made. In addition, the ageing population growth has to be factored in and the Commonwealth and State Governments need to urgently address the resultant, significant funding shortfall.

2. Libraries

Historically in Victoria, Public Libraries have primarily been operated by local governments and within a Public Library Policy framework established by the Victorian State Government.

There have been a number of attempts over years to establish more meaningful partnership arrangements in terms of policy development and direction and this appears to be eventuating through the establishment of a Ministerial Council involving local government representation.

The MAV, on behalf of its membership, has clearly advised that the economic and financial reality for local government is that the current levels of library service provision across Victoria are not sustainable under the existing cost sharing arrangements between the State and Local Government. The significant and ongoing capital and recurrent funding issues for the provision and development of public library services must be clearly defined, with the issues of declining proportion of library funding from the State Government addressed.

This has become more relevant in recent years due to the inclusion and provision of computers for public use, internet access to the public and the provision of instruction and training for the public in computer use and access to the internet. All add both recurrent and capital costs to the service.

In order to maintain and develop library services, the cost of running libraries is now around \$1 (State government) to \$4 (local government) when originally considered against a dollar-for-dollar funding basis.

The Whitehorse Manningham Regional Library Corporation (WMRLC) has for the past 5 years endeavoured to maintain services as the highest priority and provide minimal increase in new services (primarily through IT). This is indicative of other local governments in that the true cost of operating the service is met by local governments whilst minor indexation increases (below CPI) are provided by the State grant.

In order to bring adequate State funding into the Library Service, Manningham would require around \$520,000 p.a. injection and this would bring the State contribution to a figure of 40%. Ideally Councils should really receive 80% of the funding as this was the original proportion of funding provided by the State.

In summary, the contribution by local government to the ongoing operation of library services cannot be expected to absorb the historic cost shifting from the State Government that has occurred to date.

3. Maternal and Child Health Services

The Maternal and Child Health Service is a universal, high quality service provided by local governments which reaches almost 100% of Victorian families with children aged 0-6 years and Councils are legally required under the Health Act to follow up all birth notifications.

The service is an important platform for the delivery and linkages of other services, including health and identifying families who need additional support. Given that the Maternal and Child Health Service is often the first contact point for community support services, and has such high community acceptance, it is seen as a service able to provide parenting and social skills development and health intervention which both strengthen the individual families as well as local communities.

Throughout local government, there is a broad network of facilities and infrastructure and local government has also traditionally provided recurrent financial support to core services and also areas identified as additional needs.

Historically, the funding breakdown between State Government and local government was 60% : 40% respectively.

The MAV study in 1997/98 indicated that the percentage breakdown was 48.7% State to 51.3% local government.

This has now moved more closely to 40% State Government and 60% local government contribution.

Manningham's contribution is 57% to the State Government's 43%. \$170,000 is therefore required in order to bring the State contribution in line with other original arrangements.

In addition to the recurrent operational funding, local government is faced with the on-going requirement to upgrade its facilities in line with legislative changes to children's services regulations and other forms of access legislation.

As stated above, local government provides a network of facilities for this service and other children's services including Pre Schools and Child Care and therefore is required to meet the capital costs of upgrading these facilities.

Manningham is faced with a capital requirement of \$1.2M over the years 2001/02 and 2002/03 for refurbishments in order to bring all of the children's services facilities up to new regulation requirements. In addition there is an estimated \$400,000 required in the medium term to address other changes to access as a result of legislation.

In summary, the cost share in providing this service has clearly increased for local government and again, needs to be seriously considered in terms of long term sustainability.

General Comment

For all community services in which there is joint government funding provided, the cost burden over the years has clearly shifted to local government to cover increases in costs associated with the provision of services. These increases include the cost of labour through Award increases, the increased use of technology, changing Government regulations and legislation and increased social needs from the community.

Local Government does not have the windfall gains in review made by other spheres of Government eg, GST, Stamp Duty, return from gambling, to name a few and also the savings made in moving the true costs onto local government are not duly recognised nor passed on to the service providers.

STATUTORY PLANNING SERVICES

The introduction of the new format-planning scheme by the State Government has introduced extensive controls resulting in a significant increase in workload for local government. Despite the increased workload, there has been no review of the levels of statutory fees for the Planning function. The current level of fees set by the State Government is clearly inadequate.

In addition to this major issue, Councils have experienced a dramatic increase in planning applications as a result of tree removal and earthworks controls, the introduction of ResCode and the resultant complexity of the information to be assessed, regulation of liquor licences, regulation of gambling and the enforcement of brothels through the Planning Scheme. The combined effect of all these issues has been costed at approximately **half a million dollars**.

CONCLUSION

The attached table highlights the financial impact of cost shifting, under funding, compliance costs, and flow on costs to Local Government. Whilst the total figures are in essence estimates, Council believes the actual figures will more likely be even more than stated. The total impact of all the issues stated has been estimated at **\$4,062,000** on operating costs and **\$3,510,000** on Capital costs.

KEY OUTCOMES SOUGHT BY MANNINGHAM COUNCIL

- **State Government should end the imposition of state issued compliance mandates without adequate State funding or a recognition that local governments may raise any shortfall in revenue through a dynamic rating strategy.**
- **The Federal Government should note that cost shifting from States to local governments has in many instances forced local governments to raise rates or curtail services.**
- **The Federal Government should consider significant structural change in the way the tax base is dealt with.**
- **The Federal Government should redirect some of the States' GST revenue and pass it directly to local government.**