

# CITY OF PORT PHILLIP SUBMISSION TO FEDERAL COST SHIFTING INQUIRY

The City of Port Phillip provides the following submission to the Federal Cost Shifting Inquiry.

## Introduction

The continued practice of cost shifting to Local Government represents a real danger to the provision of sustainable local service delivery, infrastructure renewal and responsible governance practices. The principle forms of cost shifting include:

- Unfunded legislative mandates from the Federal and State Governments
- Federal and State Governments pulling back or absenting themselves from the provision of services
- Emerging community demands for new services which have no Government funding arrangements
- Federal policy and program changes

The State and Federal Governments have consistently endorsed the importance of the role and services provided by Local Government, however there is no Federal constitutional recognition. It is acknowledged that the State Government has made a commitment to strengthen the recognition of Local Government in its constitution by amending the Constitution Act 1975. It is also pleasing to see the Victorian Government's recent strategy of long term commitment to library funding.

Local Government determines its service priorities locally, based on community need, and funds these primarily from its property tax base (rates). However Local Government continually struggles with impacts from the service and legislative requirements from other levels of government coupled with the corresponding increase in community expectation.

The continued trend in Local Government services has been people based rather than the traditional property related services (roads, rates and rubbish). Local service provision is now more than ever increasingly complex and demanding. Both tiers of Government have failed to address, in any meaningful way, the cost and funding base of Local Government services, facilities and infrastructure.

## Grants

Local Government cannot responsibly continue to "carry the can" for a Federal Government who refuses to realistically set the quantum for the Financial Assistance Program, ("FAGS") for the purposes of distribution. Nor can Local Government subject themselves to the uncertainty of receipt and / or quantum in respect of general purpose payments or specific purpose payments as a basis for medium and longer term financial planning. Federal and State Government grants to Councils are beyond Council's control and, at best, some have been indexed in line with CPI and, at worst, have been removed or remained fixed for many years. An example is a 50% reduction in our Child Care grants from 2000 to 2001.

It is not acceptable for the Federal Government to respond to our claim by pointing to an annual growth in the total allocation (e.g. Aged Care). It misses the point that demand is growing faster than that increase and the service mix is changing. From Local Government's perspective it is cost shifting or at best a refusal to fully shoulder responsibility. The Federal Treasurer's recent background paper on "Ageing" acknowledges this. The overall percentage of tax revenues allocated to Local Government is grossly inadequate.

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## Regulation

State Governments must ultimately take responsibility for the financial consequences that they make. Attached are some of the many legislative examples of where the failure of Governments to think through the consequences of additional regulation has added considerable costs to council budgets. These are dealt with in more detail in this submission.

- Food Act
- Valuation of Land Act
- Building Act
- Victorian Building Regulations

The direct and indirect costs of additional regulation appear to have no probative influence on State and Federal decision makers. The costs, however, for Local Governments are very real.

## Independent and / or sustainable sources of income

There has been a significant failure by both the State and Federal Governments to identify/resource/legislate to provide Local Governments with a sustainable income and revenue base. Council has three main sources of income being:

- a) Rates (54%)**
- b) Fees and charges (34%)**
- c) Grants (12%).**

Councils do not have access to any substantial growth revenues and correspondingly at times have to reduce the level of services offered in line with budgetary constraints. For a number of years, rates were frozen and / or capped by State legislation that further exacerbated this issue. Generally recent rate rises have been in line with CPI rises however Local Government expenses are increasing at a faster rate more in line with adjusted average weekly earnings increases.

## Conclusion

Should there be a continuing intransigence on this by Governments, Local Governments will be forced to make decisions that limit service provision and infrastructure renewal potentially jeopardising strategic asset management planning.

Sensible inter-governmental co-operation on all levels of Government should be ultimately focused on sustainability. Pointing the finger at different levels of government as a response to and / or avoidance of this growing crisis demonstrates the failure of both the State and Federal Governments to take the impact of cost shifting seriously.

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## COST SHIFTING – COMMUNITY SERVICES

### BACKGROUND

Council has experienced cost shifting in Federal funded; Federal / State funded and State funded programs. This has been the result of

- Policy and program changes;
- Funding that has not kept pace with the increased cost of delivering programs;
- Councils picking up increased demand for services locally without commensurate increase in funding.

Examples include;

- Withdrawal of operational subsidy to not-for profit child care centres
- The Federal/State Home & Community Care (HACC) program
- The state funded Maternal & Child Health service.

### ISSUES

#### **The impact of cost – shifting on the HACC Program**

The basis for the State Government allocation of HACC funds is the purchase of units of service at a determined unit price. The delivered meals program, one of the services within the HACC program, has received the same unit price (\$1.10) for more than the past ten years (the City of Port Phillip's analysis of cost shifting considered the period 1997-2001/2002). Council provides over 120,000 meals per year to frail elderly residents and residents with a disability and represents one of the larger HACC meals programs in Victoria.

In 1999/2000 it was estimated the meal unit cost (production & delivery) was \$7.70 and by 2000/2001 this had increased to \$8.30. In 1999/2000 this represented 14% contribution from HACC funding, 25% user fees and 61% Council contribution and in 2000/2001, 13% contribution from HACC funding, 25% user fees and 62% Council contribution. With no additional increase in the unit price for meals this represents a reducing contribution from HACC funding and an increasing proportion met by user fees and Council. The MAV in its recent budget submission has sought a return to the 15% proportion met by the Federal/State Government in 1997/98. This would equate to an increase of \$20,000 per annum.

#### **The impact of cost – shifting on the Maternal & Child Health Service**

The cost shift has been defined as the difference between the actual funding received for the core service and the level of funding which would have been received had the grant kept paces with changes in cost

A recent analysis of the implications of cost shifting from the State Government to City of Port Phillip identified a reducing percentage of the unit cost funded by the State each year since 1997/98 from when the analysis commenced. For example in 1997 the overall effective funding rate represented 43.5% of the unit cost; by 2000/01 this had reduced to 42%.

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## COST SHIFTING – HEALTH SERVICES UNIT

### BACKGROUND

The State Government has amended the Food Act placing additional responsibilities on the local food industry and Council. Food Surveillance activity required to be performed by Council has increased requiring a direct increase in staff numbers and equipment. The service has therefore budgeted for an additional 1.7 staff at a cost of \$100,000.

Additional Services required of Council

SERVICE	DESCRIPTION	SERVICE LEVEL 2002/03
Compliance Inspections	Compliance Check of Food Safety Program (Inc. Routine Inspection). Each Compliance Check will take a minimum of two hours to perform.	600/year
	Follow-up Compliance Check of Food Safety Program	600/year
Food Safety Programs – Template Assessment	Assessment of food safety programs – off-site component check	850/year
Food Safety Programs – Non Template Assessment	Assessment of food safety programs, including on-site audit of program	20/year

### ISSUES

The MAV Food Safety Costing Project conducted in May 2001, in which CoPP participated, revealed that CoPP was recovering 92% of all food surveillance costs directly from food businesses. The recommendation from the MAV was for Councils to aim for 60% cost recovery.

An increase in Food Act Registrations fees will generate approximately 30k in extra income. This will offset the expense as described above and reduce our cost recovery to 74%.

Prior to 1998, cost recovery for this service was at approximately 60%, however the CoPP had increased fees considerably during 1998 – 2000, in anticipation of implementing the amendments to the Food Act. The amendments to the Act of 1998 were placed on hold and ultimately revoked by the current Government, to be replaced by the changes that are currently being implemented.

YEAR	INCOME (\$) (Food Registration Fees)	EXPENDITURE (\$)	NET COST (\$)	% COSTS COVERED
2000/01	395,000	431,000	36,000	92
2001/02	395,000	469,000	74,000	84
2002/03	420,000	558,000	138,000	74

Since 1998, cost recovery from food business proprietors has increased from approximately 60% to 74%. All costs associated with Food Act amendments have been passed onto food business proprietors.

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## **COST SHIFTING – VALUATIONS**

### **BACKGROUND**

Up until 1998, municipal valuations were conducted every four years. One of the issues that influenced the regulation of the valuation system was the need to provide some basis upon which Grants Commission distributions could be meaningfully assessed.

The Victorian Government took the view that the provision of additional statistics and requiring revaluations to be undertaken more regularly, the funding base would be enhanced. In 1998 the Government amended the Valuation of Land Act (1960) to introduce, among other things biennial valuations.

### **ISSUES**

The base minimum cost to Council in respect of the new revaluation requirements is approximately \$280,000 per revaluation.

No additional Grants Commission funding has been received for the purposes of absorbing this additional cost.

Further, the specifications required by the Valuer – General have changed in terms of their required reporting formats per revaluation. Additional work generated by alteration of reporting formats further contributes to costs either as additional resource or additional charges above lump sum components in contracts with valuers.

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## COST SHIFTING – WASTE AND RECYCLING

### BACKGROUND

The City of Port Phillip spends \$1.3 million annually on the kerbside collection, transport and sale of recyclable materials. The State Government agencies EPA and ERV publicly encourage increased levels of recycling. Under current contractual arrangements proposed as best practice by ERV some years ago, as recyclable quantities increase, Council costs increase.

The City of Port Phillip pays a landfill levy of \$4 per tonne for all wastes disposed of to landfill. The annual waste stream is 27,000 tonnes (annual levy payment is \$108,000). The levy goes to a fund administered by the State Government agencies.

### ISSUES

An issue relates to the benefits of recycling. Faced with growing scepticism about the costs/benefits of recycling, the National Packaging Covenant Council in 2001 commissioned a study titled "*An Independent Economic Assessment of Kerbside Collection and Recycling Systems for Used Packaging Materials in Australia*". The purpose of the study was to assess the net costs and benefits of kerbside collection and recycling systems and their future viability. The full range of environmental benefits was costed.

The study concluded that current kerbside recycling collections provide a total net benefit to Australian communities. The average costs calculated were:

- Net financial cost of \$26/household/year (compared to zero base of no recycling and all waste to landfill)
- Environmental benefit \$68/household/year (\$ value ascribed to reduced air, water pollution etc associated with new product made from virgin material)
- Net benefit therefore to Australian community by recycling \$42/household/year

This study has been embraced by the State Government Agencies and has become a landmark work in the justification of the sustainability of kerbside recycling services. It has however confirmed that there is a significant net cost to Councils by collecting and recycling materials rather than disposing of them as waste within the garbage collection and disposal system. The environmental benefits that support recycling relate largely to reduction in air and water pollution. Councils have a legislative responsibility to collect and dispose of wastes, but the issue to arise is whether Councils are responsible to fully fund measures that reduce air and water pollution. These forms of pollution are in other aspects a responsibility of State Government.

In respect to the landfill levy, the pool of funds derived from the levy has to date been allocated for spending in part on remediation of unhealthy rural landfills well beyond the contribution of the rural Councils, and in part on administrative costs of the State Government agencies. The EPA has recently drafted the Environment Protection (Distribution of Landfill Levy) Regulations for comment, in anticipation of recently approved significant increases in the amount of the levy. It seems necessary that these regulations be formed to ensure that the significant contributions from Councils such as Port Phillip are clearly accountable, that a specific long term benefit is derived for Port Phillip commensurate with the order of the levy paid, and that the levy is not used for areas of responsibility that might be more appropriately and properly funded by the State Government.

## **COST SHIFTING – BUILDING ESSENTIAL SERVICES**

### **BACKGROUND**

Under the Building Act & Regulations the Municipal Building Surveyor is responsible for exercising various prescribed and statutory powers that apply to existing buildings within the municipality. Therefore Council via the Municipal Building Surveyor must ensure that a suitable program is in place that activity seeks to promote, audit and enforce minimum standards of fire and life safety provisions within these buildings. A large component of building safety is attributed by the correct maintenance of fire and other safety systems installed in buildings. These safety systems are referred to as "Essential Services" or "Safety equipment and safety Measures" by the building Regulations.

#### ***The Role of the Council and the Municipal Building Surveyor in building safety***

Under section 212(1) of the Building Act 1993, "a council is responsible for the administration and enforcement of Parts 3, 4, 5, 7 and 8 and the building regulations in its municipal district".

Under section 212(1) of the Act, the Council is made responsible for the administration and enforcement of amongst others, Part 8 of the Act (Enforcement of Safety and Building Standards) and the Building Regulations. Accordingly, Council is the authority and the MBS has the powers with respect to inspection and enforcement. If Council does not undertake this role, it will be open to criticism. "The High Court's decision in Pyrenees suggests that where the MBS or Council has knowledge of a risk of fire and has the means of preventing or averting the potential danger, it has an obligation to act (whether by conducting an inspection, or exercising its powers of enforcement)".

Building safety encompassed by this reasonability includes, but is not limited to, the following;

- Fire safety,
- Issuing Occupancy permits for places of Public Entertainment
- Essential services maintenance,
- Swimming pool fencing,
- Smoke alarms in dwellings,
- Subdivision of existing buildings,
- Automatic sprinkler systems in Health care buildings, and
- Protection of public relating to buildings under construction.

In ensuring adequate levels of building safety the MBS will need to utilise the enforcement provision of the Building Act, these powers include:

- Entering and inspection buildings,
- Issuing building notices, building orders and emergency orders,
- Issue infringement fines for defective or non-maintained fire and safety systems,
- Inspect essential services and other safety systems in buildings to ensure correct maintenance and performance of safety systems,
- Bring prosecution proceedings for offences under the Building Act and Regulations.

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### ***What are Essential Services?***

Essential services are all the fire and life safety items installed or constructed in a building to ensure that adequate levels of safety exists for the buildings occupants, for the life of the building. Essential services can typically include services such as sprinklers, hydrants, hose reel, mechanical ventilation systems, fire doors, fire rated walls, exits, and emergency lights and exits signs. There are in current building practice in excess of 40 commonly used essential services.

The term "essential services" only apply to buildings constructed on or after July 1 1994. Buildings constructed prior to this date may have (and generally do) the same type of fire and life safety systems installed. However these systems are defined as "Safety equipment, fittings and other safety measures" by the Building Regulations. For the purposes of this report we shall refer to the term "Essential Services", as referring to all these definitions.

Maintenance of essential services aims to reduce risks and associated incidents. It does this through regular inspection, identification of hazards and follow up processes.

### **ISSUES**

The topic imposes very significant demands on a local authority responsibility, legal exposure and workloads.

#### ***Number of buildings and related workload***

For instance there are approximately 4,200 buildings within the City of Port Phillip that require inspection and monitoring. The time required for audits, follow up and enforcement are huge. State Government provides no support for this public safety matter. The burden totally rests with Council with very significant legal exposure and possible ramifications (public and financial).

The following table gives an impression of the extent of the issue.



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Type of Building	Total number of units	Number of buildings in CoPP	Hours per building to inspect	Total officer hours per type of building
Air space development	3	3	5	15
Apartment Building	75	75	10	750
Boarding house	17	17	15	255
Guest house	1	1	3	3
Duplex	400	200	5	1000
Hostel	6	6	15	90
Hotel	63	63	10	630
Motel	11	11	10	110
Flats	21900	1000	15	15000
Retirement Village	10	10	10	100
Serviced Appartments	20	20	7	140
Special accm house	11	11	7	77
Brothel	10	10	7	70
Office	2125	250	15	3750
Reception/function centre	4	4	10	40
Service Station	29	29	5	145
Work room/shop	74	74	5	370
Café	32	32	10	320
Care sales yard	4	4	5	20
Food/convenience stores	209	209	5	1045
Restaurant	143	143	10	1430
Shop	1265	1265	10	12650
depot/yard	7	7	5	35
Factory/warehouse	479	479	10	4790
Heay industrial	49	49	7	343
Church	42	42	5	210
Club/club room	32	32	7	224
Entertainment centre	10	10	10	100
Hall/auditorium	23	23	10	230
Indoor sports complex	18	18	10	180
Child care centre	16	16	15	240
Medical centre	85	85	5	425
Schools	30	30	7	210
	<b>27203</b>	<b>4228</b>		<b>44997</b>

**Table 1 – Building Type and Time**

**A specific amount of effort is required to inspect and enforce minimum building safety standards.. The time taken to undertake task is governed by;**

- Size and complexity of building,
- Research of building modifications and dispensations,
- Whether it is owned by a single identifiable body or whether it is a body corporate (the later will involve more time and effort), ease of locating the owner/agent responsible for overall building safety,
- The owners attitude to Essential Services Management,
- The number of units within the building,
- Building classification,

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Column 3 in table 1 estimates the number of hours that, on the average, is necessary to manage each type of building on an annual basis. This number is based on an assessment of the factors listed in the above paragraphs.

### ***Building Safety Inspection Process***

The general hours per building inspection are as follows:

<b>Process Task</b>	<b>Hours effort per building per task</b>
Receive and manage antecedent (eg MFB request, internal risk assessment and scheduled activity, or community complaint) for inspection.	0.5 ~ 2
Schedule inspection	0.25 ~ 1
Inspect and document findings	1 ~ 5
Follow up and re-inspect	0.5 ~ 3
Escalate requirement for corrective action	2 ~ 10
Manage Prosecution	10 ~ 50
Maintain database	0.25 ~ 1

A thorough process involves a great deal of effort and council hours. With the Supreme Court case law, once commenced the follow through must occur as otherwise “exposure” exists with consequential liability.

### ***Simultaneous Reduction of Risk and Cost***

The challenge placed on Local Government is trying to deal with the risk with the resources available. This is a high risk matter and is a very significant cost shifting issue.