

BLUE MOUNTAINS CITY COUNCIL

SUBMISSION TO THE INQUIRY INTO COST SHIFTING



JULY 2002

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1. INTRODUCTION

The practice of cost shifting (transferring to another level of government the responsibility for a service without the corresponding resources to provide that service) has long been a common practice, but has had the greatest and most negative impact on local government. Both State and Federal Governments have practiced cost shifting on each other – and both have practiced it on local councils, who have little or no capacity to resist this pressure or to pass the resulting costs on to anyone else.

Councils have the added disadvantage that many of the income sources such as rates, user charges, grants and developer contributions, are determined by the State Government. Therefore a Councils ability to make up any shortfall through either rate increases or user charges is limited.

Cost shifting can be either indirect or direct, and may involve several intervening parties. For example, costs can be shifted from the Federal to the State government who then pass them on to local government, or either level of government can shift costs to the community or non-government sector who then put pressure on to councils to offset these costs.

This submission argues that the failure to provide adequate funding for facilities and services is in itself a form of cost shifting and that both Federal and State Governments need to consult with local Councils in ensuring the sustainability of community infrastructure, facilities and services.

This submission responds to each of the Inquiry's terms of reference, starting with the preamble.

Acknowledgement

Blue Mountains City Council, as a member of the Western Sydney Regional Organisation of Councils (WSROC), has been a contributor to and involved in the preparation of a comprehensive WSROC submission. This submission therefore substantially mirrors and supports the recommendations in that submission and Council gratefully acknowledges the substantial input of WSROC staff and other WSROC member councils.

1.1 Summary of Recommendations

- 1) *The terms of reference for the inquiry into cost shifting should be expanded to include cost shifting by Federal and State Governments as well as all forms of direct and indirect cost shifting.*
- 2) *The requirement for any proposed reform to cost shifting to be cost neutral to the Commonwealth should be removed as being unrealistic in light of:*
 - a) *the Federal Government's involvement in of cost shifting;*
 - b) *the fact that all forms of cost-shifting have been occurring for a considerable period of time;*
 - c) *the financial pressures on many councils that have had to bear the cost of many aspects of population growth, caused by both Federal and State Government policies;*
 - d) *the fact that the Federal Government engagement required in metropolitan regions and the provision of urban infrastructure will inevitably result in additional financial commitments.*
- 3) *All levels of government should cooperate to develop broad principles that clarify the allocation of functional responsibilities between these levels of government in Australia and jointly agree to recognise these functions.*
- 4) *This process should ensure that Councils are able to respond to local needs and aspirations in providing services and functions as well as to wider government responsibilities and in addition should acknowledge that metropolitan councils will have a different capacity and operational context to those in rural areas.*
- 5) *The process should also promote greater awareness of the primary role of local government in local service provision and urban management and ensure that in the future there is no ad hoc intervention from other levels of government especially where there is a clear accountability to local communities.*
- 6) *The NSW Minister for Local Government should be asked to consider this submission and the issue of cost-shifting generally from a state perspective.*
- 7) *An agreed process should be developed between councils and State and Federal Governments to ensure that when a service is devolved to local government it is automatically accompanied by adequate and secure funding sources.*
- 8) *This process should apply not only to the devolution of services, but also to the costs involved in meeting increased accountability and reporting requirements placed on councils.*

- 9) *Federal, State and local governments should cooperate to undertake a detailed and objective audit of the extent of cost shifting. This audit should cover all forms of cost shifting as described earlier and should include cost shifting by both State and Federal Governments.*
- 10) *A wide debate should be conducted on the effectiveness and relevance of rate-pegging and, if it is to continue, what should be placed under the rate pegging “cap”.*
- 11) *Councils should be given greater flexibility to explore, individually and collectively, alternative sources of funding, including betterment taxes. This debate should also consider the inequity of applying rate pegging, statutory limitations on fees and charges, etc to local government when the same restrictions are not applied to State Government activities.*
- 12) *All levels of government should work together to provide adequate infrastructure and to protect the sustainability of the Greater Western Sydney region. All levels of government should review their administrative structures to ensure this issue is addressed.*
- 13) *The Federal Government should realise that there are distinct regions in urban areas and that these regions may be the best level for the provision of some services.*
- 14) *The Federal Government should engage in a more strategic way in metropolitan regions such as Western Sydney and in the provision of urban infrastructure.*
- 15) *As part of this process, consistent common boundaries should be established between local, State and Federal Governments to define regions. Where possible existing ROC boundaries and organisations should be used rather than duplicating them.*
- 16) *Federal and State Governments should consider the potential for pooled funding to regional groupings of councils for strategic projects.*
- 17) *The State Government should be requested to reconsider the decision not to pass on a proportion of national competition policy (NCP) payments to local government.*
- 18) *Federal, State and local governments be requested to negotiate the payment of a proportion of the GST proceeds which will be passed on to the States.*
- 19) *Federal and State Governments should support greater cooperation between Councils, particularly small councils, for the provision of services. This should be matched by a process of rationalising service provision by Federal and State agencies to reduce duplication.*

2. OVERALL COMMENTS

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into: Cost shifting onto local government by state governments and the financial position of local government.

The reference to cost shifting needs to be expanded to incorporate cost shifting by the Federal Government, though in the context of this submission it is assumed that cost shifting at the Federal level is covered by the general reference to the “financial position of local government”. It is unfortunate however that the Inquiry does not explicitly include Federal Government cost shifting. This also has an important impact on local government, and the attempt to exclude it may have politicised what is a very important issue.

In practice the term “cost shifting” covers a range of practices, including:

- ◆ Cost shifting directly by State Governments to local government;
- ◆ Cost shifting directly by the Federal Government to local government;
- ◆ Indirect cost shifting, for example, where the either level of government shifts costs either to local communities or to organisations in the non-government sector who then seek support from councils;
- ◆ “Surreptitious” cost shifting. This occurs when Federal or State Governments fail to take into account the differential spatial impacts of their policies and programs, for example, government policies which encourage people with particular needs to congregate in low-income areas. It also occurs when population policies at the Federal level or land releases or urban redevelopment decisions at the State level have a disproportionate impact on certain communities and there is inadequate provision of services and infrastructure to support these communities.

It also needs to be recognised that cost shifting is often a gradual process. Services may initially be fully funded by State or Federal Governments when they are devolved to local government or alternatively councils may be able to recoup these costs. However, over time government funding can be arbitrarily reduced or even removed or restrictions may be introduced to limit the ability of councils to charge for the service provided.

Recommendations:

- 1) *The terms of reference for the inquiry into cost shifting should be expanded to include cost shifting by Federal and State Governments as well as all forms of direct and indirect cost shifting.*

- 2) *The requirement for any proposed reform to cost shifting to be cost neutral to the Commonwealth should be removed as being unrealistic in light of:*
- a) *the Federal Government's involvement in of cost shifting;*
 - b) *the fact that all forms of cost-shifting have been occurring for a considerable period of time;*
 - c) *the financial pressures on many councils that have had to bear the cost of many aspects of population growth, caused by both Federal and State Government policies;*
 - d) *the fact that the Federal Government engagement required in metropolitan regions and the provision of urban infrastructure will inevitably result in additional financial commitments.*

3. RESPONSES TO THE SPECIFIC TERMS OF REFERENCE

3.1 Local government's current roles and responsibilities.

Cost shifting is not confined to either Federal or State Governments. Consequently, the issue will not be resolved unless there is a cooperative approach by all levels of government. Federal, State and local governments should be brought together to establish broad principles to clarify the allocation of responsibilities between the different tiers of government.

The process of allocating responsibilities will need to recognise that service provision must be responsive to community needs and aspirations, particularly at the local level. It should be done in a flexible way that recognises that metropolitan councils will have a different capacity and operational context to those in rural areas. There also needs to be greater awareness of the primary role of local government in local service provision and urban management and less *ad hoc* intervention from other levels of government especially where there is a clear accountability to local communities.

It is important to note that cost shifting occurs within a wider context of increasing demands on councils from local residents and others. Councils face increasing community expectations to provide a wider range of services including social, community and economic development services, tourism facilities and cultural development. Many of these emerging community demands are for new services that have no funding arrangements, such as providing information technology services through the public library network.

Recommendations

- 3) *All levels of government should cooperate to develop broad principles that clarify the allocation of functional responsibilities between these*

levels of government in Australia and jointly agree to recognise these functions.

- 4) *This process should ensure that Councils are able to respond to local needs and aspirations in providing services and functions as well as to wider government responsibilities and in addition should acknowledge that metropolitan councils will have a different capacity and operational context to those in rural areas.*
- 5) *The process should also promote greater awareness of the primary role of local government in local service provision and urban management and ensure that in the future there is no ad hoc intervention from other levels of government especially where there is a clear accountability to local communities.*
- 6) *The NSW Minister for Local Government should be asked to consider this submission and the issue of cost-shifting generally from a state perspective.*

3.2 Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.

There is currently no agreed process between councils and State and Federal Governments to ensure that when a service is devolved to local government it is automatically accompanied by adequate and secure funding sources. This applies not only to the devolution of services, but also to increasing accountability and reporting requirements placed on councils.

For example, councils now have to prepare a wide range of reports and plans, including State of the Environment Reports, management plans, social plans and plans of management for community lands. They must comply with a wide range of State and Federal environmental, heritage and planning legislation such as the Environmental Planning and Assessment Act, Threatened Species, Rural Fires Act etc. Many of these plans and acts have detailed reporting and accountability requirements that councils must implement usually at their own cost.

The lack of adequate funding is exacerbated by the limitations placed on councils to recover costs from the local community of providing these services, such as rate pegging, combined with apparently arbitrary increases in levies by government agencies. The level of Grant funding is also determined by State and Federal Governments. In addition both levels of government enjoy exemption from council rates. As well as affecting councils' annual budgeting, these limitations make it difficult for councils to raise the capital required to replace and refurbish ageing infrastructure.

Another area of concern are the changes to long-standing funding arrangements which aim to increase innovation but are not accompanied by guarantees of additional resources, thus threatening security of funding to

Councils. For example, whilst the initiatives proposed in AusLink for changes to road funding by the Federal Government may introduce more flexible transport responses, proposals to “move beyond” the current 100% funding responsibility for the National Highway System and renegotiate the 1991 Roads Agreement may just spread existing roads funding to cover a wider range of projects.

A detailed and objective audit of the extent of cost shifting is required. This audit should cover all forms of cost shifting as described earlier and should include cost shifting by both State and Federal Governments. There also needs to be a wider debate on the effectiveness and relevance of rate-pegging and, if it is to continue, what should be placed under the rate pegging “cap”. This debate should also consider the inequity of applying rate pegging, statutory limitations on fees and charges, etc to local government when the same restrictions are not applied to State Government activities.

Whilst the main sources of local government funding will continue to be from rates and grant funding, councils also need greater flexibility to explore, individually and collectively, alternative sources of funding. Opportunities that should be considered include betterment taxes on private gains from public investment in infrastructure.

Recommendations

- 7) *An agreed process should be developed between councils and State and Federal Governments to ensure that when a service is devolved to local government it is automatically accompanied by adequate and secure funding sources.*
- 8) *This process should apply not only to the devolution of services, but also to the costs involved in meeting increased accountability and reporting requirements placed on councils.*
- 9) *Federal, State and local governments should cooperate to undertake a detailed and objective audit of the extent of cost shifting. This audit should cover all forms of cost shifting as described earlier and should include cost shifting by both State and Federal Governments.*
- 10) *A wide debate should be conducted on the effectiveness and relevance of rate-pegging and, if it is to continue, what should be placed under the rate pegging “cap”.*
- 11) *Councils should be given greater flexibility to explore, individually and collectively, alternative sources of funding, including betterment taxes. This debate should also consider the inequity of applying rate pegging, statutory limitations on fees and charges, etc to local government when the same restrictions are not applied to State Government activities.*

3.3 The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level

including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.

As indicated earlier, the fact that regions such as Western Sydney support a disproportionate level of the nation's population growth without adequate resourcing amount to a huge and hidden form of indirect cost shifting. All levels of government should work together to provide adequate infrastructure and to protect the region's sustainability. All levels of government need to review administrative structures to ensure this issue is addressed.

A fundamental aspect of this should be much greater Federal Government engagement in metropolitan regions and the provision of urban infrastructure. One in 10 Australians now live in Greater Western Sydney and the region's population grew by over 135,000 between 1996 and 2001. Population projections indicate that the region will increase by a further 600,000 over the next 20 years.

Yet the Federal Government has very little involvement with Western Sydney as a region. The government needs to realise that there are distinct regions in urban areas and that these regions may be the best level for the provision of some services. In reengaging with Western Sydney in a regional context, Federal and State governments should not reinvent the wheel and should use existing structures such as ROCs rather than duplicating them.

As part of this process, consistent boundaries should be established between local, State and Federal Governments to define regions, for example, by using either ROC or PlanFirst boundaries. In addition Federal and State Governments should consider the potential for pooled funding to regional groupings of councils.

Recommendations

- 12) *All levels of government should work together to provide adequate infrastructure and to protect the sustainability of the Greater Western Sydney region. All levels of government should review their administrative structures to ensure this issue is addressed.*
- 13) *The Federal Government should realise that there are distinct regions in urban areas and that these regions may be the best level for the provision of some services.*
- 14) *The Federal Government should engage in a more strategic way in metropolitan regions such as Western Sydney and in the provision of urban infrastructure.*
- 15) *As part of this process, consistent common boundaries should be established between local, State and Federal Governments to define regions. Where possible existing ROC boundaries and organisations should be used rather than duplicating them.*

- 16) *Federal and State Governments should consider the potential for pooled funding to regional groupings of councils for strategic projects.*

3.4 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.

Any determination of functions between different levels of government should differentiate between the different roles and capacities of metropolitan and rural councils. In doing so it should recognise that metropolitan councils need to provide additional services and functions above the core functions of local government. They are also subject to additional pressures for service delivery associated with State and Federal Government policies, eg, population growth, urban consolidation and new release area development.

Another area of concern has been the decision of the NSW Government not to pass on a proportion of national competition policy (NCP) payments to local government. Thus Councils miss out on their share of the payments that effectively compensate State Governments for the implementation of NCP.

Councils will also miss out on the payment of a proportion of the GST proceeds that will be passed on to the States. They have already been hit by effective double taxation resulting from some aspects of the introduction of the GST (for example, Councils have been charged for GST on disposing of vehicles on which they had already paid sales tax).

Recommendations

- 17) *The State Government should be requested to reconsider the decision not to pass on a proportion of national competition policy (NCP) payments to local government.*
- 18) *Federal, State and local governments be requested to negotiate the payment of a proportion of the GST proceeds which will be passed on to the States.*

3.5 The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.

The need to establish a process to reassign roles and responsibilities between different levels of government has already been discussed. It should be emphasised that any reform of roles must be accompanied by a realignment of financial resources.

As part of this process, Federal and State Governments should support greater cooperation between Councils, particularly small councils, for the

provision of services. This should be matched by a process of rationalising service provision by Federal and State agencies to reduce duplication.

Recommendations

- 19) *Federal and State Governments should support greater cooperation between Councils, particularly small councils, for the provision of services. This should be matched by a process of rationalising service provision by Federal and State agencies to reduce duplication.*

3.6 The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

As indicated earlier, this submission challenges the presumption that any outcomes will be budget neutral for the Federal Government. The Federal Government has itself engaged in various forms of cost shifting and in addition, councils in Western Sydney in particular have had to bear the cost of many aspects of population growth, caused by both Federal and State Government policies. The Federal Government engagement required in metropolitan regions and the provision of urban infrastructure will inevitably require an additional financial commitment.

4. OTHER EXAMPLES OF COST SHIFTING

4.1 GENERAL

- Rate pegging application and accountability
- Cost of increasing levels of accountability not built into revenue – increased technology costs - increasing managerial/policy focus of funding within councils as opposed to revenue going to capital expenditure
- Local government collect/administer GST in some areas for Commonwealth
- Non-payment of rates on Commonwealth holdings – not rateable

4.2 HUMAN SERVICES

- Library services – local library playing role for uni students as uni services reduced. Cost of providing technology for libraries
- Funding for libraries from state government reduced - user charges not allowed and total revenue reducing over time
- Childcare funding reduced federal government contribution and cost shifting in fee regime
- Preschools - deficit in funding for service provision
- Subsidy for bus routes – weight/number increase and funding reduced for local roads
- Companion animals act – some funding to be provided to state. (Blacktown City is good example)
- Hard to identify cost shifting in community services area – homelessness support goes to local government
- Social plan process generates expectations on range of services provided by local government
- Workers - aged care, youth, road safety officers etc – cost of programs associated with these positions and expectations within community
- Social plan required and increased expectations of scope of role
- Library – NESB materials/English language not funded directly TPV holders. TPV holders concentration and access to state/regional services limited
- Grants for community services now not include rental for premises and request from community organisations for free council rent relief
- libraries – some primary school classes use facilities for classes as a result of downgrading of State Government primary school resources.

4.3 ROADS AND INFRASTRUCTURE

- Arterial road maintenance – costs not covered by present funding
- Commuter building and maintenance of carparks for state facilities and transport interchanges - not being provided with maintenance costs of rail commuter carparks etc

- Traffic grants for lines/signs passed on responsibility from RTA – public liability issue

4.4 PLANNING

- Development process under EPA Act and integrated assessment requirements with state agencies built in
- infrastructure in new release areas has risk and up-front costs that are paid by councils under existing s.94 legislation
- Court costs for legal compliance (i.e. Land and Environment court)
- flood mitigation ratio between federal / state / local government decreased from 2:2:1 to 1:1:1 so that federal government pays less.
- Urban growth – Sydney Water etc, infrastructure responsibility (i.e. council undertake provision of water and sewerage up front) – Re: \$100m upfront funding required by council for Edmonston Park upfront for fragmented ownership
- Contributions over time decreasing
- Sydney Water is not pre-investing in new release areas up-front.
- State facilities/ development without associated facilities - commuter carparks for school and carparks for health centres
- Court costs of state planning policies

4.5 ENVIRONMENTAL MANAGEMENT

- Environmental regulation administration is increasingly costly and directly applies to local government
- SOE – reporting /cost of supporting programs
- recycling – expectation in the community
- Environmental Regulation grant – provided for 1-2yrs on condition that position made permanent (waste minimisation officer)
- Community land plans of management – LG Act responsibility and high cost shifting cost through additional responsibility required of local councils
- Contaminated Lands Act protocol – EPA can order public authority to rectify if user/landowner not around any more (not state funded)

4.6 OTHER

- Waste services levy – transparency
- Food premises database required on behalf of state government – local government required to review to collate
- Brothel regulation fallen to local government instead of police
- Parking police – some councils facing loss from shifting of the responsibility of the scheme
- SOPA not pay rates by state legislation