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Secretary: *Burdell*

**CITY OF WODONGA - COST SHIFTING INQUIRY SUBMISSION**

Cost shifting is but one contributor to the wider problem of a gap in funding for local government generally which makes it difficult for Councils to discharge their obligations in the face of increasing demands . Some comments on this "gap " are made below.

**There are significant demands on Councils to maintain an infrastructure system which a range of reports ( Victorian Auditor General , Dept of Infrastructure ) have indicated is under funded by hundreds of millions of dollars each year.**

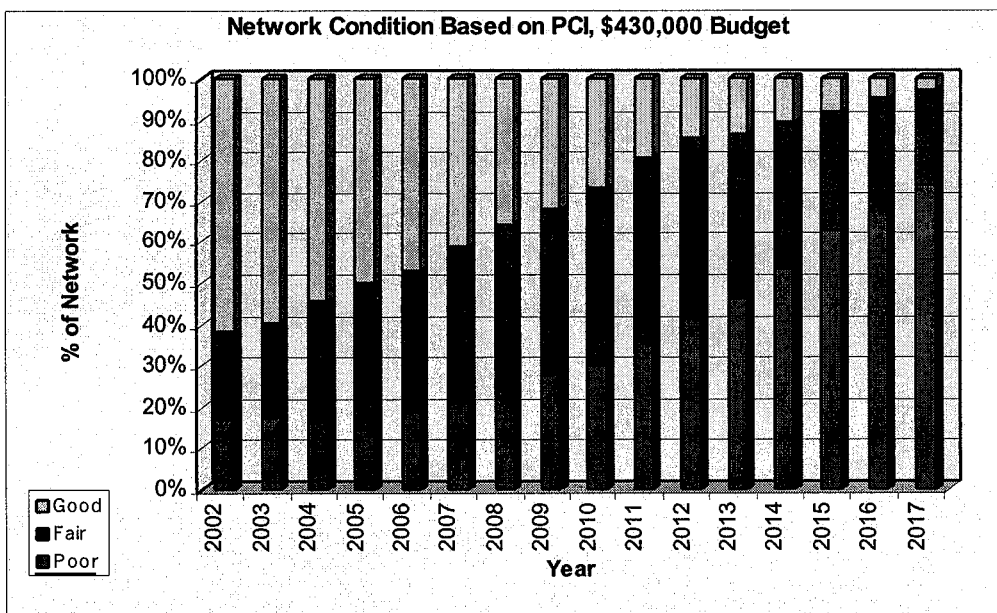
This has implications for the long term future of roads , bridges and a range of other assets . Council rate bases are inadequate to deal with this problem . State governments are placing greater emphasis on Councils' asset renewal programs without increasing funding to maintain such assets thereby forcing Councils to divert funds from non asset programs .

A specific example of Council's dilemma is shown below:

**Funding of road maintenance activities**

It is becoming clear that the present road maintenance allocation is not sufficient to maintain Council's network and related assets in their present condition into the future.

The graph below taken from a report generated by Council's pavement management system indicates how the condition of Council's road pavements will deteriorate over the coming 15 years if maintenance and rehabilitation expenditure remains at current levels



A similar exercise based on Average Annual Asset Consumption (the total replacement cost of an asset category divided by its useful life ) of each asset category clearly demonstrates the level of funding required to maintain each asset category in a satisfactory condition compared to the current budget allocation .

The table summarises the average annual expenditure required (\$ 2,558,883) over future years to maintain the current asset base to its present level of service . These figures do not take into account future additional assets that Council assumes responsibility for each year from developers and as a result of its own expansion activities. It should be noted that the above relates to only some of the assets that council is responsible for , and Council has already consciously lifted its rate effort in an attempt to address the issue .

	<b>AVERAGE</b>	<b>BUDGET MTC</b>	<b>Total</b>
<b>ASSET CATEGORY</b>	<b>ANNUAL</b>	<b>AND RENEWAL</b>	<b>Expenditure</b>
	<b>ASSET</b>	<b>EXP TO JUNE 2002</b>	<b>for AAAC</b>
	<b>CONSUMPTION</b>		<b>Ratio = 1</b>
Bridges & Major Culverts	74774	20,000	74,77
Storm Water Drainage	612436	150,000	612,43
Road Surface	851709	600,000	851,70
Road Pavement	559685	500,000	559,68
Footpath	133947	50,000	133,94
Kerb & Channel	233801	30,000	233,80
Cycle Paths	92526	45,000	92,52
	<b>Total \$ 2,558,878</b>	<b>\$1,395,000</b>	<b>\$2,558,87</b>

*(Impact of the asset maintenance task – expenditure is \$1.16 m per annum below that required to maintain the asset base)*

#### **Issues concerning monies received through Financial Assistance Grants**

Council believes that the Financial Assistance Grants process , particularly in regard to the quantum of funds available nationwide is one means of addressing the impact of cost shifting or under funding . Calculations done each year by the Grants Commission always results in grants to Councils being heavily reduced from what the analysis shows is required . This is largely as a result of the inadequate size of the pool of funds available .

Council believes that the State based per capita distribution must be maintained through the current structure of the FAGS program.

*(Impact – in 2002/3 Council's calculated raw grant was \$11.6m when its actual grant was \$2.249m)*

**Increased demands for service provision with a limited funding base often results in a Council having to decide between that service provision and capital expenditure , with the subsequent compromise resulting in a sub optimal outcome for the community either way.**

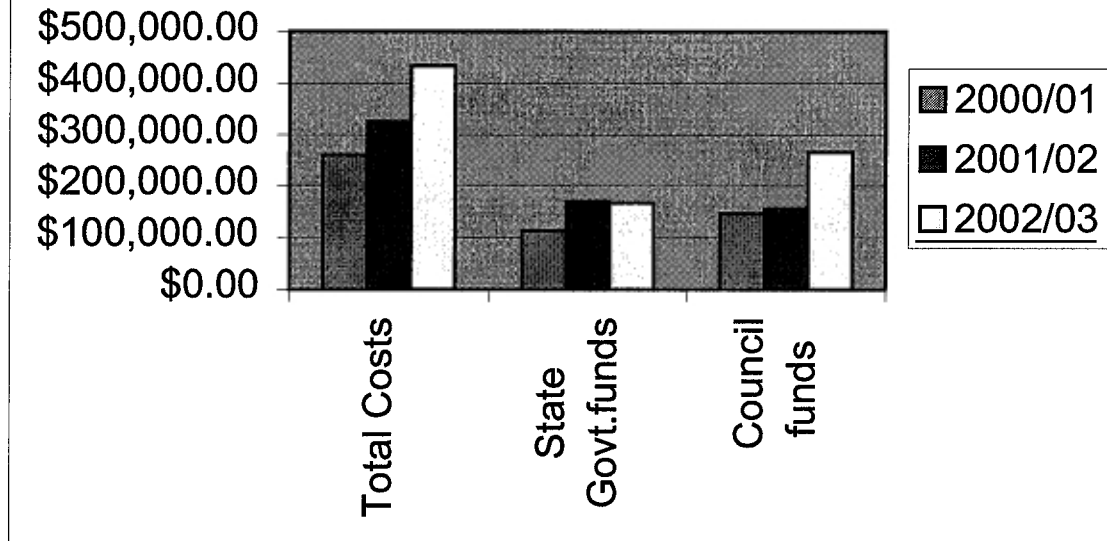
#### **Maternal and Child Health**

The unit cost per hour is grossly under funded . Additionally , State Government health policies such as early release of post natal mothers have resulted in additional workloads for M & CH nurses (funded by Councils)

The graph below shows how Council's contribution has increased over the past three years from approximately \$150,000 to \$280,000 , while the State's contribution has decreased . The increased Council contribution equates to an approximate 1.3% rate increase.

When considered in conjunction with Pre School programs Council has seen funding keep up with the increased costs of programs . Over both programs the cost per unit of care has increased by some 11.3% over a twelve month period.

## Funding Costs for Maternal and Child Health



A summary of the combined impact on Pre Schools and Maternal and Child Health Centres is shown below :

Maternal/Child Health	2001/2	2002/3
Actual Cost of Service	325,835	433,407
DHS Subsidy	169,860	160,000
COUNCIL CONTRIBUTION	155,975	273,407
Units of Care	3627	4438
Unit Cost	100.20	106.54
<b>Pre Schools</b>		
Actual Cost of Service	903,904	979,892
DHS Subsidy	490,102	513,000
Fee Income	179,000	208,000
COUNCIL CONTRIBUTION	234,802	258,892
Enrolments	375	370
Unit Cost	2410	2649

*(Impact – approx \$140,000 per annum between 2001/2 and 2002/3 alone)*

### Home and Community Care

The HACC program is significantly under funded which results in Council having to provide sufficient "top up " funding as well as limiting service . State Government policies (such as de institutionalisation) have increased the user base significantly with limited additional funding and resources . Funding provided per unit of service does not keep up with cost increases and prevents Council from maintaining existing services without increased contributions . Further , this prevents additional service being provided to cater for increasing demands for the service.

For the 2002/3 year Unit costs and State funding are shown below ;

Service	Unit Cost	State Subsidy
Home Care	33.93	22.75
Property Maintenance	33.93	34.00
Personal Care	33.93	26.01
Respite Care	33.93	23.51
Meals	7.10	1.10

In most cases the subsidy provided is significantly below what it costs to provide the service.

*(Impact – a need to curtail service provision to fit within funding constraints)*

### **Libraries**

Libraries are under funded in respect of both operational grants and capital/infrastructure needs . The “gap” is where feasible addressed by Councils . The ratio of Council funding to that provided by State Government has progressively increased . In 2000/1 Council budgeted for a net contribution of \$380,700 and in 2002/3 this figure is \$441,273 , an increase of 19%.

*(Impact – the recurrent grant now only funds 19.4% of the Library's operation , it having increased 10.7% over the past 5 years while Council contributions have increased 24 % in the same period . In aggregate , the Council contributions have increased by \$271,000 with the Government Grant up by \$29,000)*

**In a number of cases , Council has been forced to cater for the impact of legislation created by other levels of Government , often resulting in increased cost for which no funding is provided . Some examples are ;**

### **Building Regulation**

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

The legislated lodgement fee of \$15 for provision of information (to Solicitors , surveyors etc ) is insufficient ( with more realistic cost estimates in the vicinity of \$150)

Section 29 Demolition and Report is a complex piece of legislation to administer and the fee is capped at \$ 50 (with more realistic cost estimates in the vicinity of \$ 100)

The Building Control Commission is now referring all complaints about private building surveyors to Councils even though they are the responsibility of the Commission .

The Building Control Commission has advised councils 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 BCC that as the increase in premiums is not sustainable some surveyors will be choosing not to renew their registration.

*(Impact – increasing workload for Councils with no ability to recover the costs of this increased responsibility)*

### **Sewerage/Water**

Relevant sewerage and water authorities are no longer checking plumbing/water/sewerage fixtures . Further , no assistance/resources are provided when fixtures are creating a nuisance. This has become the responsibility of Councils . Councils are responsible for the approval and inspection of septic tank systems . Amendments to the Code of Practice and approvals now require Councils to conduct regular auditing of septic tank systems.

*(Impact – increasing workload for Councils with no ability to recover the costs of this increased responsibility)*

## **Public Health Services**

The Tobacco Unit (Department of Human Services) continues to introduce new legislation which requires Council enforcement with limited funding and a lack of personnel or resources.

Immunisation requirements have increased significantly ( e.g , required vaccinations , complex combinations etc ) with minimal or no additional financial assistance or resources . State supplied computer systems require regular enhancing.

Councils now have the total responsibility for the collection , disposal and control of sharps disposal with no funding at all.

Councils have an increased responsibility for the control of littering offences.

*(Impact – increasing workload for Councils with no ability to recover the costs of this increased responsibility)*

## **Community Services**

Significant changes to building regulations which require expenditure but which are compulsory and only partially funded results in increased costs in upgrading Child Care facilities estimated at \$50,000 net in 2002/3 . Further , regulations regarding child care services at Leisure facilities have significantly increased operational and capital costs.

For example , installation of internal fence (\$1100) , erection of outdoor fence (\$10,000) and from July 2003 , a need to budget an additional \$3500 for staff increases due to ratios are all requirements at Council's Sports and Leisure Centre.

*( Impact – one off \$61,100 and recurrent \$3500 per annum)*

## **Integrated Planning**

Prior to 1994 , Economic Development for a local government area was not a mainstream local government activity . This is now a function of Councils under the Local Government Act

*(Impact – Council will spend almost \$900,000 in 2002/3 which does not include previous and future years)*

Ongoing implications for upgrade in infrastructure to meet the requirements of the Disability Discrimination Act , results in Council incurring significant cost.

*(Impact - \$60,000 to 2001/2 with a further \$180,000 in future years)*

The introduction of 50 kmh speed limits in local streets has resulted in community demands that roads of this type that have 85<sup>th</sup> percentile speeds in excess of the new limit require implementation of local traffic management devices to assist in containing vehicle speeds . Other than one off funding for the provision of new signage and signage changes at the commencement of the new speed limit no additional or compensatory funding has been provided and Council is required to absorb the associated costs of implementing these devices . This also includes numerous sites which have previously been treated to achieve the previous 60 kmh limits and now have a perceived speed problem.

*(Impact – increased community expectation of increased expenditure on traffic management*

## **Finance and Civic**

The GST legislation for Councils is complex , as Council provides GST free supplies , supplies attracting GST and Division 81 supplies which make certain supplies , at the discretion of the Minister, outside the legislation . The Government could have allowed Councils to be GST exempt which would have been much simpler administratively. Councils have been responsible for initial set up costs (eg , software , audits etc ) and ongoing operational costs.

*(Impact – increased resourcing and investment in systems required with no funding)*

From 1994 Councils are required to comply with National Competition Policy and Competitive Neutrality principles . This meant that Councils are now subject to Part IV of the Trade Practices Act and must comply with competitive neutrality for any significant business activity Council provides .

*(Impact – increased resourcing required and whilst some funding available there is no guarantee it will continue)*

Cost involved in setting up procedures and purchasing of required guides under Whistleblowers , Privacy and associated legislation , having already had to put procedures in place for Freedom of Information.

*(Impact – increased workload and ongoing costs of compliance as yet undetermined)*

Councils are now required to do a valuation every two years instead of the previous four (with little direct or indirect benefit for Councils). The amount of information required to be collected during the valuation has substantially increased.

*(Impact - \$87,000 net over a 2 year period and ongoing)*

The Property Information /Locality Name Changes and Rural Addressing Projects have involved Council in a great deal of work in amending records and refining systems for which some funding has been received but when this initial funding ceases Council will continue to maintain the system. No funding was received in regard to Suburb and Locality changes and in the case of Rural Addressing council has had to change all its property addresses in internal databases for those that have a rural address allocated.

*(Impact – increased resourcing required when initial funding ceases)*

## **Further Issues**

Further issues that Council has concerns about are shown below:

- The shift in costs cannot be sheeted home as solely the effect of the decisions of one level of government , as both State and Federal decisions impact
- A number of grant programs are generally instigated by policy decisions of other levels of government , which can create uncertainty in the revenue stream , prejudicing a Council's ability to plan strategically
- Where a government program is subject to increases in that funding , say by CPI , this generally does not reflect the increase in the cost of a program to councils , which research indicates is more akin to the increase in Average Weekly Earnings . This under funding over time results in what is effectively a cost shift
- Part of the under funding of the local government sector could be tackled by addressing the impact of duplication between State and Federal programs , which whilst not adding to the overall pool of funds , would ensure that those funds being duplicated were freed up for value adding activities
- Council does see opportunity for funding to be provided for Councils to work with each other , pooling funding to achieve regional outcomes