SUBMISSION NO. 36
AUTHORISED: 25-05-05

Australian Local Government Association
8 Geils Court
Deakin, ACT 2600
Ph (02) 6122 9400
Fx (02) 6122 9401
alga@alga.asn.au

ALGA Submission

to the

House of Representatives Standing Committee on Health and Ageing

Inquiry into Health Funding

May 2005

Table of contents

Introduction

Thank you for the opportunity to provide a submission to the House of Representatives Inquiry into Health Funding.

The Australian Local Government Association (ALGA) represents the interests of local government nationally. ALGA is constituted as a federation of the peak Local Government Associations in the six states and the Northern Territory, together with the Government of the ACT. ALGA provides a range of services to its member associations and, through them, local councils throughout Australia.

ALGA commends the establishment of the Inquiry into Health Funding and recognises the need to further improve the efficient and effective delivery of health services to all Australians.

This submission shall give particular consideration to the roles and responsibilities of local government in regard to health and related services, funding arrangements and better defining roles and responsibilities between the different levels of government.

Role of local government in health and related services

Over recent decades, the range and scope of local government functions have expanded, moving beyond the traditional local government services, such as roads and waste management, to incorporate a growing range of human services.

In its 2001 review of the Local Government (Financial Assistance) Act 1995, the Commonwealth Grants Commission concluded that:

> *"...the composition of services provided by local government has changed markedly over the last 30-35 years and local government is increasingly providing human services (social welfare type services) at the expense of traditional property based services (particularly roads)."*

This trend is illustrated in table one which shows that 49% of local government expenditure is now related to the provision of human services, such as welfare, housing, health, community amenities, recreation and culture.

Table 1: Local government expenditure by purpose, 2002-03a

Proportion of total expenditure	NSW	Vic	Qld	SA	WA	Tas	NT	Total
	%	%	%	%	%	%	%	%
General public services	15	12	20	17	10	14	38	15
Education, health, welfare and public safety	11	21	3	7	11	6	5	11
Housing and community amenities	26	18	30	19	15	36	27	24
Recreation and culture	11	17	11	17	23	12	7	14
Services to industry (b)	2	1	2	3	1	-	1	1
Transport and communication	29	22	28	25	33	23	14	27
Other	7	8	7	12	8	8	8	8
Total expenditure	$m	$m	$m	$m	$m	$m	$m	$m
	5 663	3 970	4 492	1 074	1 596	512	284	17 591

a The ACT does not have local government. b Industry includes agriculture forestry and fishing, mining manufacturing and construction, and fuel and energy.
Source: ABS (Government Finance Statistics, Cat. no. 5512.0).

Health services

Local government concentrates on planning, coordination, policy development and in many cases direct service provision of population based public health services to their local communities. Particularly those aimed to promote healthy environments and control the causes of disease, illness and injury.

The range of local government public health activities include:

- Environmental health activities such as environmental protection (e.g. water and air quality and pollution abatement and control, erosion control), urban and stormwater drainage, sanitation, street cleaning, waste management, water supply.

- Development, implementation and enforcement of public health policies and regulations, in areas such as water, air or food standards, or the promotion of smoke-free enclosed public places.

- Health promotion and preventative health programs and services such as health inspections to uphold food quality standards; maternal and child health, such as immunisation clinics, infant health and mothercraft clinics; community hospitals, clinics and community health/ mental health programs and services; community and school dental and nursing services; and care for the frail aged, people with disabilities, and people undergoing rehabilitative or palliative care.

- Recreation and leisure facilities and services, including parks and sporting centres.

- Promote and increase resident access to health services, for example by providing information in specific languages as well as English.

The Australian Institute of Health and Wealth (AIHW) in its report - *National Public Health Expenditure Report 1999-00* concluded that local government contributes substantially to expenditure on public health and related activities. AIHW found that in 1999-00 local government expenditure on public health services equated to $222.5million (table two).

Table 2: Local government expenditure on public health-type services in 1999-00

State or Territory	Total expenditure ($'000)
New South Wales (a)	124,604
Victoria	39,221
Queensland	41,134
South Australia	6,425
Tasmania	10,798
Northern Territory	322
Australia	222,504

(a) Expenditure for New South Wales may include non-public health components on waste management and environmental protection.
Source: AIHW, *National Public Health Expenditure Report 1999-00, page 98*

As illustrated in table three, for Queensland, South Australia, Tasmania and the Northern Territory, that expenditure was funded by:

- revenue ($22.6 million or 38.6%)
- grants from other levels of government ($5.1 million or 8.6%).
- local government own-source funding ($31 million or 52.8%)

Table 3: Funding of expenditure by local government authorities on public-health related-type service in 1999-00, ($'000)

State or Territory	Revenue	Grants from other levels of government	Own funding(a)	Total expenditure ($'000)
Queensland	20,222	1,625	19,287	41,134
South Australia	349	268	5,808	6,425
Tasmania	2,009	2,851	5,938	10,798
Northern Territory	48	326	-52	322
Total	22,628	5,070	30,981	58,679
Percentage of total expenditure	38.6	8.6	52.8	100

(a) Calculated by substraction
Source: AIHW, National Public Health Expenditure Report 1999-00, page 98

Aged-care services

The Productivity Commission, in its research study – *Economic implications of an ageing Australia,* concluded that the ageing of the population is likely to result in increasing demands on a range of local government human services that are significantly age-related. The Commission identified the main demands would include:

- health and aged care,
- home support services,
- subsidy of medical services,
- financial support to aged care facilities;
- local community transport; and
- a range of cultural and recreation services.

Specifically, the Productivity Commission recognised that with population ageing, home and community care services are projected to increase significantly in the future.

In Victoria, HACC services are increasingly being funded by local government. A recent report by the Victorian Auditor General noted that, in 2002-03, local government contributed $48 million of own-source revenue to HACC services, an increase of about 23 per cent compared with 2000–01.

Whitehorse City Council stated in its submission to the Cost Shifting Inquiry:

> *"... the Home and Community Care (HACC) program is the single largest program in human services in the City of Whitehorse, consuming over 10 percent of the council's recurrent expenditure. In the last four years, council's overall contribution to the provision of HACC services has increased from 22 percent to 30 percent - that is, from $1.1 million in 1997-98 to $2.5 million in 2000-01. The greatest increases have occurred in home care, where council's contribution has nearly quadrupled in four years - from $310,000 in 1997-98 to $1.1 million in 2000-01."*

Medical services

As a key player in public health and community welfare, local government is increasingly concerned about declining community access to primary and acute health services. For example, Access Economics[1] has estimated a shortfall of between 1,200 and 2,000 general practitioners across Australia, with at least 700 more needed in country areas.

Community and local government concern about the shortage of health care professionals is reflected in numerous resolutions of the National General Assembly of Local Government, such as the following passed in 2002:

> *"That the Australian Local Government Association make representations to the Prime Minister and the Federal Minister for Health to urgently address the ongoing critical shortage of specialists, senior medical officers and medical practitioners with the necessary skills in regional and rural Australia and put in place Medical Practitioner Workforce Planning Strategies (including appropriate strategies) to address this national problem".*

ALGA has previously argued (ALGA 2003-04 Federal Budget Submission) for adoption of measures including:

- action to stop the loss of procedural GPs from regional areas;
- an increase in GP training places;
- elimination of unnecessary barriers to the recruitment of overseas trained doctors;
- increasing the number of medical graduates; and
- funding nurse practitioners to work - with GP supervision where appropriate - in areas where few or no doctors can be secured.

ALGA strongly supports the concept of geographic bonding to address regional doctor shortages, noting that new medical school places are to be offered on the basis that they are bonded to areas of need.

We have also been pleased to see the Australian Government take steps to address the issue of overall shortages in the medical workforce as well as the specific issue of maldistribution. It is accepted that medical workforce planning is inevitably imprecise. However, the conditions of overall shortage which have been experienced over the last decade should have been forseen and substantial workforce action undertaken to counteract consequential outcomes.

Impact of medical shortages on local government

Where shortages exist, the community invariably looks to local government for help. Although access to health care is fundamentally a federal and state

[1] The general practice workforce in Australia. Canberra: Access Economics, 2001.

government responsibility, local government – through necessity - has increasingly become engaged in the recruitment and retention of health professionals, particularly of doctors.

In order to recruit doctors, many local governments now offer 'lifestyle packages', including accommodation, provision of fully equipped consulting rooms, travel and assistance with locum relief.

Some councils have gone further. For instance, in Queensland, the Kingaroy Shire Council has implemented its own Medical Workforce Strategy to help rebuild the town's medical workforce. The strategy covers GP services, private hospital facilities and specialist services. In particular, the council purchased and re-opened the town's private hospital, St Aubyn's, which had ceased operation in June 2001. The council now owns and operates the hospital and a medical practice, through a wholly owned council company.

The future of rural practice will see many GPs spending part, possibly a small part, of their working life in regional Australia. These doctors are unlikely to buy a practice, rather seeking contract positions in practices where they can work for a limited time without the financial, administrative or social complications attached to practice ownership.

Increasingly, rural GP practices will be owned by local councils, which will also own and operate an employing entity to free GPs from the complex administrative tasks involved in running a modern general practice.

Local government's investment in medical infrastructure and support services represents a very significant shift of costs from federal and state governments, primarily responsible for access to health care and medical workforce planning, onto poorly resourced councils.

In its December 2003 report, the House of Representatives Inquiry into Cost Shifting onto Local Government acknowledged that:

"... health and welfare is a major area of cost shifting onto local government."

In particular, the Inquiry found:

"... many rural and remote councils use their own resources to attract doctors to their areas". Some councils financially support the housing, travel and salary of doctors, nurses and dentists. For example, to secure medical services, the Shire of Laverton in Western Australia provided incentives totalling $170,00 per year to retain a doctor and about another $48,000 per year to nurses who complete at least six months service at the local hospital."

Rural Medical Infrastructure Fund

ALGA welcomes the establishment of the Australian Government's $15 million Rural Medical Infrastructure Fund as a measure to assist rural councils recruit and retain GPs.

The Fund will finance the establishment and maintenance of premises and equipment to assist rural and regional councils to establish community medical facilities. The Fund will specifically help:

- Increase regional community sustainability and resilience;
- Increase the ability of regional areas to attract, recruit and retain GPs; and
- Contribute to health outcomes at the community level.

The Fund was part of a ten point plan, *Good Health to Rural Communities*, developed by ALGA, the Rural Doctors Association of Australia (RDAA), the National Farmers Federation (NFF), the Country Womens' Association of Australia (CWAA) and the Association of Health Consumers of Rural and Remote Australia (HCRRA). The plan is a collaborative policy statement concerning the most important factors influencing the future provision of health services to Australia's rural and remote communities.

Local government funding arrangements

Local government has three major sources of revenue: municipal rates (38% of Total local government revenue), user charges (32%), and grants and subsidies from other spheres of government (12%). Local government does not underestimate the importance of Financial Assistance Grants (FAGs) which accounts for more than 50% of council revenue in some rural and remote councils where own-source revenue raising capacity is severely limited.

As the Fair Share report makes clear, under existing financial arrangements local government is struggling to meet increasing demand for its services. Consequently, local government faces the choice of either increasing revenue or cutting services. Cutting local government services is not usually a viable option and is counter to the objective of delivering equitable local services across Australia.

Over the past 30 years, local government has maintained its revenue-raising effort and has worked hard to expand own-source revenue. During the 1970s, fees and user charges comprised 13% of total revenue. This revenue source now represents 32% of the total. Local government has also continued to increase municipal rates. However, compared to growth in Commonwealth taxation revenue (39% over the period 1998-99 to 2002-03), rates are a slow-growth tax (25% over the same period). Furthermore, state government restrictions such as rate pegging have limited local government's ability to increase rates.

Consequently, FAGs remain an essential component of local government revenue. The Australian Government introduced FAGs in 1974-75 as a way of distributing taxation revenue to local government. The primary objectives of FAGs are to:

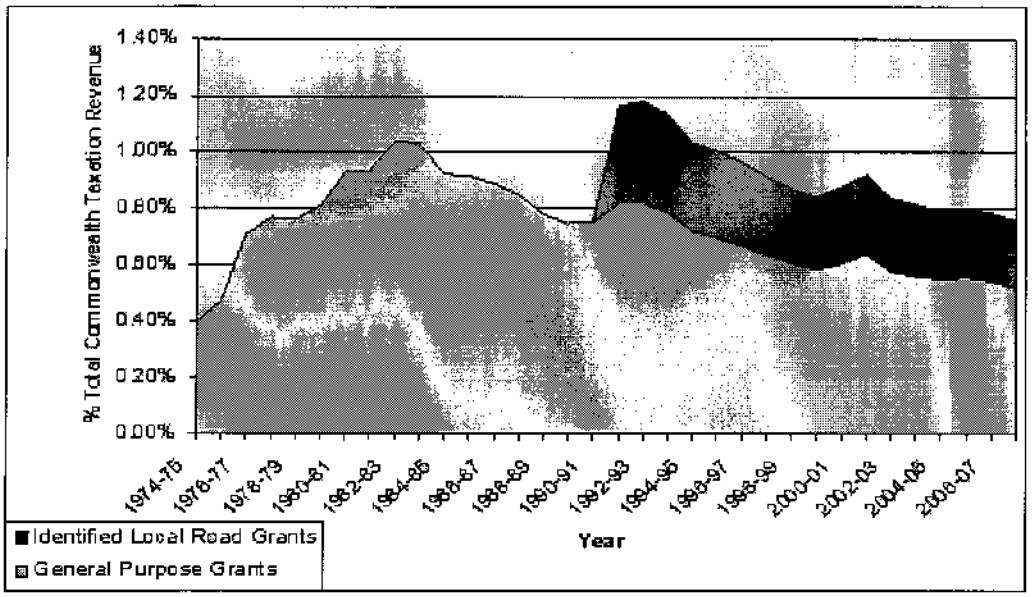
- improve the capacity of local government to provide their residents with an equitable level of services
- improve the financial capacity of local government
- provide certainty of funding
- improve the efficiency and effectiveness of local government.

The current FAGs program does not provide local government with a source of revenue that meets existing demand, nor does it reflect historical growth in demand for government services.

At present, the Australian Government annually adjusts the quantum of FAGs using an escalation factor based on inflation and population growth. Over the past 20 years, the application of this escalation factor has resulted in a decline of FAGs as a percentage of total Commonwealth taxation revenue, as shown in Figure 2. The 2004-05 Federal Budget papers indicate that this trend is set to continue. The value of FAGs, as a proportion of total Commonwealth taxation revenue, will have fallen from 1.18% in 1993-94 to 0.97% in 1996-97 and to just 0.77% by 2007-08

While highly valued by local government, the FAGs program is now 30 years old and has not kept pace with the changing demands placed on councils. As indicated above, the demand for increased spending on human services, such as health, welfare and public safety, has trebled in the past three decades at the expense of traditional services such as roads, thus contributing to the severe run down of local roads and other infrastructure. This trend is set be exacerbated with the onset of an ageing population.

Figure 1: Local government financial assistance grants as a percentage of Commonwealth taxation revenue



Source: Australian Local Government Association

If local government is to continue to satisfy legitimate community expectations, while also coping with legislated responsibility transfers from other spheres of government, it is essential that the financial relationship between the Australian Government and local government be significantly reformed.

The way forward

Local government plays an important and expanding role in the Australian federation, delivering a range of important health and related services at the local level. However, local government is under growing financial pressure, which hinders its ability to provide for the increasingly complex needs of 21st century communities.

To ensure local government can continue to carry out its well established roles in health and related services, two issues need addressing - dysfunctional governance and the failure of federal financial assistance grants to keep pace with the costs of providing for the needs of local communities.

The way forward for local government should include:

Better governance arrangements

The Fair Share report concluded:
"If local government were involved earlier in the process of determining service delivery, this could reduce areas of unnecessary overlap or duplication between the spheres of government. Further, the reduction of duplication in advice and service delivery between the spheres of government would improve overall cost effectiveness of government services and achieve significant savings".

Accordingly, a whole of government approach to human services and governance is required to effectively meet the health needs of local communities.

ALGA recommends the establishment of a formalised intergovernmental agreement (IGA) on government service provision. The IGA would clearly define the roles and responsibilities of each sphere of government in specific areas of service provision and focus on the performance of each sphere through agreed benchmarks.

The IGA would provide substantial benefits, including better use of resources, reduction of waste and duplication and an improvement in the quality of services provided to local communities.

A fair share for local government

ALGA seeks an increase in the quantum of assistance through changes in the way the Australian Government calculates Financial Assistance Grants (FAGs). The current program does not provide local government with sufficient growth in funding to meet increasing demand. The CPI-based escalation methodology has seen FAGs steadily decline as a proportion of

total Commonwealth taxation revenue. The scheme is more than 30 years old and does not reflect the changes in local government's roles and responsibilities. Nor does it reflect the real costs of providing services and maintaining infrastructure.

Consequently, ALGA seeks to resolve this problem by linking the quantum of financial assistance for local government to an agreed proportion of total Commonwealth taxation revenue (excluding GST). In advocating this reform, ALGA proposes a graduated two-step approach. Initially, by amending the escalation factor to more closely align growth in FAGs with that of the Australian economy; and subsequently, setting the quantum of FAGs at an amount equivalent to 1% of total Commonwealth taxation revenue (excluding GST).