

MELBOURNE CITY COUNCIL SUBMISSION

INQUIRY INTO COST SHIFTING ONTO LOCAL GOVERNMENT

July 2002

Federal Cost Shifting Inquiry

Submission from Melbourne City Council

Introduction

Following a commitment at the last election, the Federal Government has initiated an inquiry into cost shifting onto Local Government. The (abbreviated) terms of reference for this inquiry are

1. Local Government's current roles and responsibilities.
2. Current funding arrangements for Local Government.
3. The capacity of Local Government to meet existing obligations and to take on an enhanced role at a regional level.
4. Local Government expenditure and the impact of changes in the relationship between State and Local Governments.
5. The scope for rationalisation between levels of government.
6. The findings of the Commonwealth Grants Commission review of Local Government

This submission presents a number of issues around cost shifting from a Melbourne City Council (MCC) perspective. It should be stressed that these are initial comments covering a broad scope of issues. MCC is able to provide additional information and analysis, should this be appropriate.

Background

For the purposes of this submission cost shifting is defined as additional expenditure imposed on Local Government as a result of

- a shift of responsibility for new service delivery onto Local Government without a corresponding shift of funds
- a requirement for Local Government to provide expanded existing services without matching expanded funding
- a requirement for Local Government to carry out one-off projects either unfunded or underfunded
- additional expenditure incurred by Local Government in complying with State or Federal legislation, policies or other initiatives.

Funding arrangements for Local Government are complex. Councils raise revenue directly through a range of rates, fees, charges, fines and other payments. In addition funding is provided by both Federal and State Governments for both general and specific purposes and at levels calculated through a range of different formulae. In the case of Melbourne City Council (MCC) approximately 96% of revenue is raised directly and 4% is provided by the other two levels of government.

In recent years, the percentage of funding from State and Federal Governments, as a percentage of total Council revenue, has declined. This is shown in the table below, which shows actual results for the previous three financial years.

Description	Year Ended	30 June	(000)
	1999	2000	2001
Total MCC Revenue	173,069	188,125	236,221
Revenue for State/Federal Government for Programs	8,116	8,263	7,451
% of total MCC Revenue from other levels of government for programs	4.69%	4.39%	3.15%

Victorian Local Government has maintained for some years that the funding that it receives from the State Government has not kept pace with real increases in costs incurred in service delivery. Recently the Municipal Association of Victoria (MAV) produced a report (State Government Cost Shifting in Specific Purpose Programs Delivered by Local Government) which addressed the issue in relation to specific purpose funding. This report concluded that for the 2000-2001 year an additional \$31 million of funding would need to be met by Local Government as a whole as a result of changes in State Government funding arrangements. This represents more than 40% of the rate increase of \$72 million proposed for that year.

As well as shortfalls in funding for existing services, the State Government imposes additional costs on Local Government through new or expanded programs for which no or only partial funding is provided. Recent initiatives include restricting the sale of tobacco to minors, the new Food Act, Primary Care Partnerships, building regulations for childcare facilities etc.

In addition, increases in funding from other levels of government are CPI driven whereas Local Government's costs are increasing more in line with increases in Average Weekly Earnings. As a result, funding continues to increase at a lower rate than costs are increasing with the shortfall cumulatively compounding over time.

Local Government is the sphere of government closest to the people and therefore best able to provide a range of services of a more local and targeted nature. Services have been traditionally provided to the aged, disabled, families and children, many of which are beyond the legislative mandate of Local Government. The recent strong emphasis on community building initiatives is increasing demand for both existing services and innovative new service responses. Innovation new services may not fit well within the existing funding models and programs of State or Federal Government.

MCC believes that its role as the capital city council places it in a position with additional responsibilities and expectations. This role places additional obligations and expenditures not encountered by other Councils, as it operates in partnership with the State Government and with other capital city Councils.

Cost Shifting in Specific Programs

The impact of cost shifting on various services provided by MCC are given below.

Program	Comments
Aged & Disability Services	<ul style="list-style-type: none"> ▪ Council spent \$2.155 million on Aged & Disability Services in 2000/2001 and received funding of \$1.128 million from the State and Federal Governments – a net cost to Council of \$1.027 million. It is arguable that Local Government is the appropriate level of government to provide such services because of its closeness to the community and its ability to provide more targeted service. However the question needs to be addressed as to what service levels and service types should be funded by Local Government. ▪ Increases in HACC funding have not kept pace with increases in service delivery costs. ▪ Funding for Meals on Wheels not subject to CPI adjustment. ▪ MCC's inner city location with high land costs leads to a higher cost of residential aged care facilities with a consequent shortage of places. This in turn places a greater burden on the provision of home based services. ▪ Increased proportion of older ratepayers is leading to increased demand for services. Also there is an expectation by the "new" aged of new services not provided by traditional HACC funding. ▪ There is a risk of duplication of aged services between CAPS (Federal funding), Linkages (State funding) and HACC (Federal, State and Local funding).

Family & Children's Services	<ul style="list-style-type: none"> ▪ An approximate breakdown of funding for Family & Children's Services for the 2000-2001 year shows that MCC provided from 55% to 100% of the funding for various programs compared to 7% to 28% of funding from other levels of government (the balance being user fees and charges). ▪ The increasing schedule of vaccinations has resulted in additional costs to Council. ▪ Significant increases in salary costs have been incurred from Enterprise Agreement increases.
Library Services	<ul style="list-style-type: none"> ▪ MCC is setting up a Capital City Library to meet the needs of the broader City community. Establishment costs will be of the order of \$4 million with annual operating costs of approximately \$1 million. No additional State Government funding has been provided for this important service for all Victorians. ▪ The MAV report identified an overall reduction in the State Government share of library funding from 51% in 1976-77 to 22% in 2000-01. MCC libraries (operated jointly with the City of Yarra) have experienced similar funding reductions.
Health Services	<ul style="list-style-type: none"> ▪ Local Government is now responsible for the registration, maintenance and annual inspection of cooling towers to prevent legionella infection. ▪ The new Food Act has imposed considerable additional requirements on Local Government that can only be recouped via annual registration fees. To recover the additional expenditure by this route would make the fees unacceptably high. ▪ The Tobacco Unit continues to introduce new legislation and procedures which require Health Services monitoring with no corresponding funding.

Environmental Development	<ul style="list-style-type: none"> ▪ MCC has invested approximately \$3.5 million in Federal Government initiatives to reduce greenhouse gas emissions. While this involvement is voluntary and much of the funding has come from existing budgets, additional funds have been required.
Financial Services & GST	<ul style="list-style-type: none"> ▪ One-off costs of the order of \$1.5 million were incurred to implement the New Tax System. This covered system changes, specialist consultants, temporary staff and communication/ documentation costs. Funding of \$2,000 was provided by the Federal Government to offset this. ▪ Recurrent cost increases since the introduction of GST arise from additional reporting/compliance requirements (\$48,000pa) and holding costs (\$29,000pa)
Pensioner Rate Rebates	<ul style="list-style-type: none"> ▪ The pensioner rate rebate provided by the State Government has been capped at \$135pa since 1983. At that time this represented only 37% of the average MCC pensioner rate account. Because of this Council introduced an additional rebate of 50% of the State rebate. The State rebate now represents only 17% of the average MCC pensioner rate account. Any increase in State rebate would require additional funding, if MCC to match its current rebate.
Engineering Services	<ul style="list-style-type: none"> ▪ State owned assets such as the Powlett Street Bridge have been transferred to Council control without any funding provided for ongoing maintenance and graffiti removal. Council has spent over \$19,000 on graffiti removal from this bridge and application of an anti graffiti treatment. On going maintenance for this bridge will be approximately \$5k per annum. Council also removes graffiti from VicRoads traffic signal cabinets located in the CBD. This cost is approximately \$10k per annum. ▪ Water Main Burst Consequential Damage Repairs. City West Water provides water supply to the majority of the municipality. Water mains are pressurised pipes which occasionally rupture due to variable water pressures, age of infrastructure assets and

	<p>ground movement. The water mains are located within the public highway, which is controlled by Council, and when a water main ruptures, the event usually causes additional consequential damage to Council's civil infrastructure. City West Water claim that the Water Industry Act 1995 provides liability immunity (except where it can be established they were negligent) from damages and paying for the repair of Council's consequential damage. Council has typically paid over \$100,000 per year to repair damaged civil infrastructure resulting from City West Water main ruptures. For 2001/02, there were 29 water main ruptures with repair costs of \$196,000.</p> <ul style="list-style-type: none">▪ The recent reinterpretation of non-feasance in relation to public highways has meant that Councils are now open to public liability claims from which they previously had immunity. The corresponding increase in premiums has not been compensated for.▪ Construction of significant infrastructure by State Government which is then passed to Council for on-going management responsibility. Typical examples are Pedestrian Bridge, but is refusing to accept responsibility for the four new pedestrian bridges constructed by the State Government in the Sports and Entertainment Precinct. Annual costs for these four bridges is in the order of \$200,000.▪ Street lighting on declared roads. The Transport Act obliges VicRoads to pay 2/3 of the cost of street lighting on declared roads, of which there are over 60km in the municipality. Almost all lighting on declared roads is fully funded by Council and several attempts to have VicRoads pay their share have been unsuccessful. Council is paying approx \$400,000 p.a for the share of lighting costs which should rightfully be paid by VicRoads.
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Parks & Recreation Services	<ul style="list-style-type: none"> ▪ MCC maintains at its own expense a series of parks and gardens of national significance. The State Government collects a Parks Levy applied to water rates charged annually to all property owners. None of this levy is passed on to MCC.
Development Planning	<ul style="list-style-type: none"> ▪ Responsibility for dealing with development proposals within the City of Melbourne lies with the Minister for Planning (via the Department of Infrastructure) rather than with MCC. Notwithstanding this the DOI relies on MCC for engineering advice relating to traffic management, access, road capacity, car parking and other issues. No recompense is provided for these services.
Contracts	<ul style="list-style-type: none"> ▪ Significant savings were achieved through the introduction of CCT. However these were largely offset by the loss of Council revenue from a 20 % rate cut imposed at the same time. At the same time Council has incurred ongoing recurrent costs for managing contracts arising from the CCT process and subsequently Best Value.
Facilities Management	<ul style="list-style-type: none"> ▪ Additional expenditure has been incurred from changes in Building Regulatory regime. Extra resources are required to monitor contractor compliance with Plant and OHS Regulations and legionella control measures.

Capital City Issues

The issues identified above are common to most Councils. However MCC's position as the capital city Council imposes some additional cost burdens which are not properly recognised. These include:

- Victoria has the reputation as the Garden State and the parks and gardens within the City of Melbourne are the embodiment of this. MCC spends of the order of \$15 million annually to maintain land owned by the State as parks and gardens. These gardens attract approximately 15 million visits per year as well as hosting major events such as the Melbourne International Flower and Garden Show and the AFL Grand Final. All these generate substantial statewide economic benefits, none of which are returned to MCC.
- Because of its CBD location, MCC has to maintain a number of historic buildings that by their nature are more expensive to maintain.
- MCC is financially involved in the provision of a number of festivals as a result of its capital city status.
- MCC funds a number of small agencies (ie Travellers Aid) that one would expect to find in a capital city and which provide services not just to MCC ratepayers.
- The CBD location gives MCC a greater than average number of rate-exempt properties and this number is increasing as organisations with rate-exempt status expand. The result is a continual erosion of the rate base, the effect of which is borne by other ratepayers.

Overall MCC incurs a range of additional expenditure by virtue of its capital city status. While this status confers some additional financial benefits (ie higher parking income) more equitable arrangements with the State Government are necessary to ensure that the cost of capital city status is borne fairly by both the State Government and MCC.

Conclusion

1. Cost shifting from both State and Federal Governments to Local Government has occurred for a number of years and continues to occur.
2. This cost shifting occurs through four main mechanisms
 - Shift of responsibility to Local Government with no corresponding shift of funding
 - Requirement for Local Government to provide expanded services without matching expanded funding
 - One-off projects either underfunded or unfunded
 - Cost of compliance with State or Federal legislation or initiatives.

3. There are other areas where responsibility for funding and service delivery needs to be discussed and more equitably apportioned between the three levels of government.
4. The Melbourne City Council welcomes this inquiry and is able to provide additional information or to expand on aspects of this submission should that be deemed appropriate.

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