



The Secretary  
House of Representatives  
Standing Committee on Economics Finance and Public Administration  
Parliament House  
Canberra ACT 2600

Email: EFPA.Reps@aph.gov.au

23 July 2002

Dear sir,

**Inquiry into Cost Shifting onto Local Government**

Following the invitation of the House of Representatives Standing Committee on Economics Finance and Public Administration attached is a submission on Cost Shifting onto Local Government from the City of Glen Eira.

The submission was endorsed by the Glen Eira elected representatives at the ordinary Council meeting held on 22 July 2002.

If you require further information on the content of this submission please contact Councils Chief Financial Officer, Cynthia Lahiff on 9524 3206.

Yours sincerely

Andrew Newton  
CHIEF EXECUTIVE OFFICER



## **COST SHIFTING TO LOCAL GOVERNMENT FROM OTHER GOVERNMENT LEVELS**

### **INTRODUCTION**

The Local Government Act 1989 sets out the purposes and objectives of a Council. The functions of a Council are set out in Schedule 1 of the Act.

While parts 1-6 of Schedule 1 are specific and relate to functions that include services for family and children, animal and litter control, roads, recreation services and planning, part 7 is all inclusive and open to wide interpretation. Part 7 states that the function of a Council includes “any other functions relating to the peace, order and good government of the municipal district”.

Glen Eira provides a diverse range of services to its residents including but not limited to

- Engineering services
- Community services
- Health services
- Waste collection and management
- Recreational services
- Town Planning & Building services

While Glen Eira is legislated to provide some parts of these services others rest with Council through the passage of time, political pressure or other external influences.

### **GLEN EIRA INCOME SOURCES**

The main funding source for Glen Eira is rate and garbage charge income. In its 2002/2003 Budget 63% of operating income is raised by rates and garbage charges, 19% through grants and subsidies, 16% through user fees and the balance of 2% through other minor income streams.

The only untied grant provided to Glen Eira is the financial assistance grant allocated by the Victorian Grants Commission. The allocation to Glen Eira is at the lowest level given the Grants Commission current formula. The formula includes consideration of the property values within each City with a view to high valued property areas having the capacity to fund operations through rate increases rather than through financial assistance grants. The roads grant allocated by the Victorian Grants Commission to Glen Eira is being reduced by 60% over the three year period 00 / 01 to 03 / 04. A revision of the roads grant allocation formula has resulted in road funding being redirected to rural areas.

Major grant allocations from the Victorian State Government include grants for Home and Community Care services and capital funding for recreation and library facilities.

Unlike some of its neighbouring Councils Glen Eira does not have the capacity to raise major revenue streams through parking infringement notices or parking fees.

## **FINANCIAL IMPACT OF COST SHIFTING**

### **Grants Commission**

In the main category of Grants Commission Funding Glen Eira currently receives the lowest per-capita grant in Victoria.

The recent revision of the formula for the road component of this grant results in a reduction in the funding for Glen Eira. The proposed grants are:

2000/2001 Actual	\$644k
2001/2002 Actual	\$532K
2002/2003 Budget	\$421K
2003/2004 Estimate	\$287K
2004/2005 Estimate	\$263K

By 2004/2005 Glen Eira will have experienced a cut of 60% in Grants Commission Road Funding. The shortfall in funding for roads will have to be passed on to Glen Eira rate payers.

### **Revaluation of Property**

Prior to 1998 Councils revalued rateable property every four years. Amendments in 1998 reduced this to every second year. The change has been introduced under a Liberal Government and implemented under a Labour Government. Each Council revaluation of 55,000 properties costs around \$750k. There is no benefit to Council. Rates are spread over the new property base.

There is a benefit from the revaluation to the State Government as more properties become subject to land tax. In short, ratepayers pay to generate more income for State Governments.

It is important to note that in the case of property revaluation the costs are imposed on Local Government while the gains are made by the Victorian State Government.

### **Melbourne Fire Brigade (MFB) Levy (02/03 Estimate - additional \$350K)**

The MFB levy collected by Local Government pays a significant proportion of the costs of the Fire Brigade. Most people may not be aware that their rates include this cost. The levy is based on relative property values. Glen Eira City Council values have, on average, risen by more than other metropolitan municipalities which results in an increase in our MFB levy. The estimated levy to be paid in 2002/2003 is \$1.25m, this represents 3.2% of the total rates to be collected by Glen Eira for 2002/2003. The levy is expected to increase by \$350k in the 2002/2003 financial year alone.

### **Tree Pruning around power lines (\$50K)**

The introduction of new State Government regulations results in increased costs for Council of \$50k p.a.

### **Animal Control**

Section 69 of the Local Government Act requires Council to collect a fee from every animal registration that is passed on to the State Treasury Department. The fee has recently increased from \$1 to \$2.50 per registration. This cost is included in the registration fee and it is not apparent to animal owners that the additional cost is a tax which being collected on behalf of the State Government. While the amount in this instance would seem immaterial it represents an increase for animal owners of 150%.

### **Planning Scheme Reforms**

Reforms to planning regulations have seen an increase in the number of buildings requiring permits. There is now a legislative requirement to have strategic plans and policies. Extra staff are now required in both strategic and statutory planning to cope with the additional workload.

This form of incremental cost creep has been occurring over the last decade. It is estimated the cost to Council of delivering town planning services has at least doubled over this time (estimate an additional \$400K p.a.).

With the backing of State Government, Melbourne Water floodway management is likely to be administrated by Council by virtue of a flood overlay. This alone will mean an additional 10,000 allotments (about 1/5 of the municipality) will require town planning permission most likely for the first time.

### **School Crossing Supervisors**

There has been a significant reduction in the funding for School Crossing Supervision. In 1989/90 the state subsidy as a % of expenditure was 65%. (Estimate \$50K over 10 years). For the 2002/03 financial year the funding has dropped to 33%.

### **Building Regulations**

Policing of pool fencing and fire safety regulations has also increased Council costs. While the state government promotes compliance with the regulations, enforcement is incumbent on Council. State Government increases the controls and Council is left with the increased enforcement, additional staffing is then required to ensure compliance with these regulations.

### **Libraries**

From the estimated 2001/2002 annual result to the 2002/2003 Budget there has been an increase in the grants to libraries of 1.5%. After taking inflation into account, it represents a decrease in funding. The direct cost of operating our libraries has increased by 6.98%.

The MAV report, State Government Cost Shifting in Specific Purpose Programs Delivered by Local Government, shows statistics for the decreases in Library funding. The report states that the share of total spending represented by public library grants will have fallen from 51% in 1976/1977 to less than 22% in 2000/2001. In the case of Glen Eira, the State Contribution in 2002/2003 has fallen to 22%.

### **Maternal & Child Health**

The funding driver is the number of births in the municipality. This has remained constant over the last 4 years (1,523 in 2000). For this reason the level of funding has remained constant with the increase in 2001 being for the Enhanced Home Visiting Scheme.

### **Home And Community Care (HACC)**

Originally, Councils contributed 20% of the cost of this program. Currently we contribute 29% of the funding to the HACC program. While service delivery costs have increased in Local Government by an average annual rate of 3-4% the DHS contribution at Glen Eira has increased by an average of only 2%pa in respect to core funding. This discrepancy is particularly noticeable in funding for respite care where the funded unit cost is \$23.05 per hour while the actual cost is closer to \$30 per hour. Growth funding to Glen Eira has increased by 9% but is required to be matched with an increase in the hours of service delivered. The move by the Victorian State Government to fund on output based measures rather than the original agreement to fund 80% of the cost of the service has shifted the burden of costs on to Local Government.

### **Public Health**

While some funding has been received from the State Government to support initial implementation of legislative changes eg Tobacco Act and new Food Services Act there is additional work and associated costs involved in the ongoing monitoring and inspection services.

Glen Eira received funding to provide information to target food business concerning the need for each business to submit a food safety program template to Council. This level of funding has been insufficient to recover costs associated with the inspections and educational material required for this task. Additional Council food safety responsibilities introduced by the State Government that were not funded include:

1. Implementation of new food safety standards for all food businesses.
2. Implementation of new risk classifications for all food businesses.
3. Introduction of independent food safety audits for high risk food businesses.
4. Introduction of suitably qualified food safety supervisors for each food business.
5. Administration of a range of new offences introduced by the Food (Amendment) Act 2001.

Glen Eira City Council received funding from the Department of Human Services for the implementation of Victorian Tobacco reforms. Funding was adequate to deliver the activities required for the initial implementation, however future funding for the administration of these responsibilities has been reduced.

In respect to Glen Eira's scheduled immunisation sessions, government funding does not reflect the true cost of provision of immunisation services (\$6 reimbursement where service cost is \$17). The funding paid to medical practitioners to provide the same service is \$46 per unit (\$24.50 direct payment, the balance being paid by medicare.)

Cost shifting in the context of the MAV report has occurred where Government funding has not fully covered increases in awards, superannuation and workcover increases.

### **Waste Management**

The Environment Protection (Resource Efficiency) Bill recently passed through parliament contains provisions to increase the landfill levy payable by Council on each tonne of refuse delivered to landfill.

The levy, which is currently at \$4.00 per tonne, will increase by \$1.00 per tonne each year for the next 5 years. The increase in levy will replace the fees currently paid to regional waste management groups and the remainder is intended to fund waste reduction projects. Given that Glen Eira already complies with best practice recycling principles there is little scope to access any waste reduction project funds.

Over the five year period this increased levy will result in an additional cost to Glen Eira of \$500,000.

### **RESPONSIBILITIES OF GOVERNMENTS**

On average, of every \$1 of tax paid (including rates), 3 cents goes to local government 97 cents goes to the Federal and State governments.

That 97cents is supposed to pay for the constitutional responsibilities of Federal and State governments (eg Health) but increasingly aspects of those responsibilities are being shifted onto local governments without commensurate resources.

In addition, Federal and State taxation has increased at a vastly higher rate than local government taxation.

### **CONCLUSION**

Local Government rate income is raised by striking a rate in the dollar each year. It is not a tax that will naturally increase with increasing property values as does stamp duty. To this end there is constant pressure on Councils to keep increases in rates in line with CPI, along with local political pressure. The reality is that increases in line with CPI will not fund both operating cost increases and address the issue of aging infrastructure highlighted recently by the Victorian Auditor General's report on "Management of Roads by Local Government". Increases in operating expenditure outside the control of Councils (i.e. additional insurance costs, additional demands on Aged Care services, and increases in the Superannuation Guarantee Levy) are compounded by cost shifting from other levels of Government.