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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION

Reference: Local government and cost shifting

Roundtable

WEDNESDAY, 19 FEBRUARY 2003

BOX HILL

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION
Wednesday, 19 February 2003

Members: Mr Hawker (*Chair*), Ms Burke (*Deputy Chair*), Mr Albanese, Ms Gambaro, Mr Griffin, Mr Peter King, Mr Latham, Mr Nairn, Mr Somlyay and Dr Southcott

Members in attendance: Ms Burke, Mr Griffin, Mr Hawker, Mr King, Mr Nairn and Mr Somlyay

Terms of reference for the inquiry:

To inquire into and report on:

Cost shifting onto local government by state governments and the financial position of local government. This will include an examination of:

1. Local government's current roles and responsibilities.
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.
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.
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.
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.
6. The findings of the Commonwealth Grants Commission <http://www.cgc.gov.au>/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.

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Committee met at 9.08 a.m.

CHONG, Councillor Robert Foo Hee, Mayor, City of Whitehorse

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WRIGHT, Mr Stephen Phillip, Acting Chief Executive Officer, Whitehorse City Council

CHAIR—I declare open today's meeting on local government and cost shifting. Last week the committee released a discussion paper intended to stimulate debate and fresh thinking on effective solutions to cost shifting onto local government. Today we will discuss many of the issues and options in the discussion paper. We would like the roundtable session this morning to be a free-flowing discussion between the committee, panel members and all participants. I want to emphasise that point. There are a lot of people around this table with a wealth of experience and knowledge of local government, and we are here to try to gain the benefit of that. I encourage you to not feel constrained in your comments, because that is how we will get the best value from the forum.

The session this afternoon will be open to all interested people to make statements to the committee on local government and cost shifting. We have already heard from seven local government representatives who will be participating in the session. Mayor Chong, we are delighted to be here and thank you very much indeed for facilitating this hearing. It is great to be in this very significant part of Melbourne and Victoria. The quality of input we have had

from this region has been extremely impressive. Mr Mayor, I believe you have an opening statement.

Councillor Chong—Good morning, ladies and gentlemen. Welcome to the great City of Whitehorse. I would like to extend a special welcome to the honourable David Hawker, chairman of the House of Representatives Standing Committee on Economics, Finance and Public Administration; Ms Anna Burke, deputy chair and member for Chisholm; parliamentary members of the standing committee and local government colleagues and CEOs.

Ladies and gentlemen, on behalf of the City of Whitehorse Council, I am delighted to welcome you to the roundtable hearing on local government and cost shifting. This parliamentary inquiry into cost shifting has come at an opportune time and is important to local government for a number of reasons. First, it presents an opportunity to begin a conversation at a national level on the role and responsibilities of local government. We hope that this conversation will not only continue but also be broadened to engage the active participation of state governments. Second, it provides a great opportunity to highlight the major financial crisis facing local government. We can attribute this financial crisis to the significant successful reform of local government. As a result of these reforms, we now have larger councils with comparatively smaller numbers of staff, delivering a greater range of services to a community that has a higher level of expectation about service quality and service standards. At the same time, councils' responsibilities and accountability requirements to other spheres of government have also grown. All these extra burdens are carried out within a constrained resource environment.

It is important to note that our experience in Victoria also reflects national trends. The conclusion of the Government Grants Commission in its analysis of local government finances over nearly 40 years confirms this trend. It stated that local government had the lowest rate of growth in both revenue generation and expenditure of any sphere of government. Yet during this time, local government services have expanded from property and infrastructure to include recreation, culture, health, education and welfare services. Councils have increasingly relied on rates, user fees and charges, and traffic infringement fines as the level of government grants have declined. But the ability of councils to raise rate revenues to compensate for the decline in the level of government grants has been restricted by state government control.

The cost shifting from Commonwealth and state governments to local government is blatantly obvious when the following is occurring: the Commonwealth and state government have failed to maintain program funding in real terms; the Commonwealth government has withdrawn program funding once a program has been established; and the state government has imposed additional and new functions and tasks without matching resources. This is not a new phenomenon. Past state and Commonwealth governments of both political persuasions are responsible for this. Significantly for local government, the damaging effect of cost shifting has been to make councils a service delivery arm of other spheres of government. In so doing, it has reduced the discretionary capacity of local government to fund local priorities and has placed impediments to a council's ability to get on with the business of community capacity building and developing its local community. The resolution of the issues of cost shifting and the relevant issues spawned by it will, therefore, have a significant impact on the future of local government.

To sum up, I wish the parliamentary committee success in its deliberations and trust that the participants in this hearing will provide the committee with fruitful thoughts about the future direction and funding of local government. With the committee's indulgence, I would like to ask City of Whitehorse Council acting CEO, Mr Stephen Wright, to highlight some of the City of Whitehorse's issues outlined in the submission to this inquiry.

Mr Wright—Thank you chair, deputy chair—Anna Burke—members of the committee, councillors, colleagues, ladies and gentlemen. I notice that you have a formidable array of speakers before you today. I know they will provide you with a comprehensive discussion of this issue, so I do not want to take too much of your time. The City of Whitehorse has provided a written submission which contains details about our specific concerns but, as the mayor indicated, I would like to highlight just a couple of examples.

With a budget in excess of \$8 million in 2001-02, the Home and Community Care Program is the single largest program in human services in the City of Whitehorse, consuming over 10 per cent 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 per cent to 30 per cent—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. The level of government subsidy has not kept pace with either increases in services costs or the growth in demand for services. These increases have been funded by a combination of increases in fees and rate increases. A number of other services—for example, libraries and services to families—are elaborated on in our submission.

I wanted to also raise the issue of new functions being imposed on local government. There seems to be a tendency in other spheres of government to assume that local government can absorb additional duties and functions with minimal impact on their work or their resources. Sometimes these assumptions are implicit in legislative changes that impose additional demands on council resources; at other times they are attitudes reflected in policies or, indeed, action by other levels of government.

Legislative changes, in which councils have a statutory responsibility to administer aspects of legislation, have the greatest impact on council's operations; for example, in planning, building and public health, in recent years, the state government has introduced significant changes to legislation without providing any resources to local government for its administration. The roles and responsibilities of the municipal building surveyor, for example, have increased significantly to include inspection of public buildings for essential services, conduct of audits of special care buildings, swimming pool inspections and enforcement of associated fencing regulations and inspection of smoke detectors. These are all services that are expected to be provided, yet council is required to meet these costs or otherwise charge a fee for the service.

Similarly, the Victorian government has recently introduced Rescode, a new process for the assessment of planning applications. The task has become more complex and requires greater input from the municipal building surveyor than previously. Obviously, the demands on planning staff have also increased. However, the planning fees set by the state government fail to cover council's costs. In public health, the state government has introduced new legislation in relation to the sale of tobacco that requires councils to monitor and enforce this legislation, although no resources are being provided for this task.

The attitude that councils can easily take on additional tasks is reflected in recent decisions of the Victorian Building Control Commission. The commission is no longer dealing in the first instance with complaints about private building surveyors and is instead now referring all such complaints to councils—without transferring the matching resource. In a similar vein, the building commission has advised councils that, due to the steep rise in public liability insurance—that is, insurance for private building surveyors—a number of private building surveyors will no longer be issuing building permits and councils can, therefore, expect a substantial increase in their workload.

For Whitehorse City Council this increase in demand to issue building permits can only be met by: reducing the resources allocated to those statutory functions I mentioned earlier, such as swimming pool safety, essential services inspections, smoke detectors, et cetera; or to employ additional staff, obviously with a cost to ratepayers. These are a few examples.

To conclude, the resolution of these issues will require a change in attitude by all levels of government, a change that sees government maintain proper funding in real terms and provides local government with the discretion to raise revenue to meet the costs of providing these services. Thank you for the opportunity to present.

CHAIR—I would like to advise everyone that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament.

We have received submissions from a number of councils. We had one meeting in Warrnambool before Christmas with some of the councils in that region. I think most of the councils, apart from Bendigo and Nillumbik and Yarriambiack, are here in the city area. The CEO of Yarriambiack is coming. I happen to know that she has now moved into the great electorate of Wannon, as the CEO of Glenelg. As the local member, do you want to say something, Anna?

Ms BURKE—Welcome to the wonderful city of Whitehorse in the electorate of Chisholm and thank you to my two local councils for being here today and for the submissions that have been made. The submissions from the majority of Victorian councils have been very thoughtful so we are hoping for good things from today, to put that impost upon you.

CHAIR—I guess we might kick off talking about rationalising roles and responsibilities of local government. I was wondering if we could set the scene. What do you see as being the roles, the rights, the responsibilities? What would you see as the optimum role? Would someone like to bite that one and have a go?

Mr Johnstone—I think it is worth making the point that when we are talking about cost shifting we tend to think about local governments as deliverers of services. I would start in a different position in that we are talking about local governments as being the first level of government in the Australian polity and that there are three levels of government and that first level is particularly important. The first duty of that first level of elected representatives as council is to represent the best interests of their community. That raises issues as to what are the functions and we might talk later about the unavoidable overlap that exists in a democracy that has three levels of government. But too often we focus too much on local governments in their

service providing role. That service providing role is incidental to their governance role in representing that community and seeking the well being of that community.

Mr Spence—I suppose my comment about the role is focussed on what is happening structurally in Victoria where you are seeing a stronger move to local service planning and adjusting service outcomes to local community expectations. To actually structure a model across Australia, or even in Victoria, that would provide a ‘one size fits all’ approach to services is very difficult. The trends in the last three years in both local and state government have been to move to much more attuned local service outcomes.

I think the complexity when you look at this question is that each state has a different approach to local government. I am sure when you look at it nationally you have learned when you ask questions in the Northern Territory or in Western Australia about what the outcomes are in local government relative to Victoria you get a very different slice of the action. In Victoria, we are very strong on the human services area and a major provider in this state of HACC—home and community care—services, the specialist services about keeping aged people in their homes as long as possible. We are more attuned to the services in that area than you see in other states.

I would say that up until recent times we have had less emphasis on the infrastructure side, but that has actually come back on our agenda very strongly. But when you cut all that away the base is what the local communities’ expectations are about service, and what local need is. Then the councils have to adjust their service outcomes to that.

Mr Sides—I think that is quite a key point in the deliberations of looking for a solution, in that local government is quite a different beast within states and across states and it seems to me in the reading of the discussion paper that a lot of the discussion about horizontal equalisation really has as much to do with how applicable the one model is across a state when you are trying to cover 20,000 square kilometres with 5,000 people versus 30 square kilometres with 100,000 people.

I think to some degree local government is a residue level of government. It gets the service that the others think is appropriate there and it is also driven by the local expectation. So there is such variety between the areas that I think one of the problems, coming at it from a higher level, is that there are just so many models.

Mr Emonson—Can I perhaps bring some of the benefit of having worked in rural and regional areas for some time and now metropolitan? The one size does not fit all argument is particularly pertinent, even within the state. The expectations of the local communities in my experience can vary quite markedly, even just between rural and metropolitan areas in terms of service delivery. I think Hadley’s point is reasonably pertinent in that we are in some respects a residue because we respond to local demands and those demands are going to vary, depending on demographics and geographical spread and a whole range of factors. The ‘one size fits all’ is one of the biggest issues we have to grapple with in terms of strengthening local government Australia wide. Getting a mechanism to achieve that is a fundamental challenge.

Ms BURKE—One of the queries I have had during all of this committee’s meetings—and if you look in *Hansard* you will find it—is meeting community expectations and demands. I have said this everywhere: I would love to meet all my community expectations and demands; I

would love to have greater funding for universities. Unfortunately, I use David's council, Monash, as an example of community demand to keep three pools going when it is not financially viable. And we are now going to have three pools in Monash because of community demand and expectation. I knew he would be happy with that example.

Community demand and expectation is wonderful but you are all talking about the ability to fund it. This is the thing that irritated us a little going around the country. Yes, we would all like to respond to community demand, but you cannot. There is only 'x' amount of dollars to go round. If we give more to local government it means less for somewhere else. What if the community in Whitehorse wants us to buy a couple of great big whacks of open space? It would probably be lovely to do it, but if the council forks out a couple of million dollars for those whacks of open space—both of which are currently privately owned; one is an ex-private school—it means it cannot do other service deliveries. My question, in a roundabout way, is how do we manage that community expectation and demand without going overboard or putting you all into debt or continually coming back to the Commonwealth for money? How do we manage all those expectations?

Ms Dale—Before we leave community expectations, I want to point out Nillumbik's situation. I have worked at Nillumbik, which is metropolitan but has 90 per cent of its land conservation rurally zoned. I used to work in Boroondara. Coming even from a metropolitan council to another metropolitan council there is a difference. Nillumbik has not just community expectations but a whole raft of over 50 different state and federal environmental treaties and agreements that we have to fund. This is quite different from a Boroondara context. Even within metropolitan Melbourne there are different legal imperatives and environmental imperatives that do not go anywhere even before we get to community expectations. I thought it was worthwhile pointing out that across the board there are different environments and contexts in which we operate—quite different, even in a metropolitan context.

Mr Heine—We need to come back to a key issue that Peter raised, which is that local government has governance as its primary issue; so you are dealing with politicians.

Ms BURKE—Terrible people really, aren't we?

Mr Heine—It has to be recognised that you are dealing not with some financial institution but with an elected group of people who are going to look to respond in a manner that they think reflects the needs and demands of the community. You are trying to constrain local government through financial measures that were not designed to address local government as a level of governance in its own right. That is one of the key issues, in reading through the discussion paper, that I think is missed. It is not that we do not want to spend money on infrastructure in a logical, rational manner. Everyone looks at their infrastructure and says, 'Wouldn't it be marvellous to have the perfect world,' but the political realities of dealing with local government are no different from state and federal. You have a group of politicians who are going to be out there to look to respond to local issues.

If you take the arguments that the UK government are trying to slip through, saying that in order to receive national assistance you need some level of accreditation which guarantees a minimum array of infrastructure or whatever, then that is a whole new debate that needs to be opened about the notion of governance in Australia. It needs to be debated very clearly and articulately for people who want to stand for local government that it is not a free-for-all

political process—it is one where there are known constraints, and if you want to be elected you have to operate within it.

Councillor Chong—Community demand is only one part of the equation of cost shifting. The other part is service delivery forced on local government by state and federal governments, unplanned for. We are forced to deliver extra services which are not planned.

Mr Costello—The smaller rural councils cannot even deliver the basic services. That is one of the troubles we have. We get rid of the politics in the local area because we do not have the funds to fund the favourite projects. There is very minor funding of those. We try to do the basics. But the thing that really irks me is the opportunistic funding we get involved in. We have our plans and strategies in place and we cannot get the funds out of anyone, either from the local area or the state or the federal government, to do the things that we strategically need to do. Then along comes the political wish that says, ‘Oh, we’ll fund pools this year,’ or ‘We’ll fund footy grounds this year,’ or ‘We’ll fund extra home care this year.’ But we do not need it in that area; we need it over in another area.

It is very hard to continue with the strategies that you know from all the studies you have done are going to work in your local area. We are like a puppet on a string—someone pulls a string over there and we react to it. It is usually a reaction to the money that is available because the only way we can get something done is build on the small amount of dollars we have ourselves.

Mr Conran—I want to pick up on Catherine’s point from a bit earlier. If we talk about the service level, there are two different types of service demand. There is the community expectation, service demand at the local level. If councils want to respond to that, that is their call and away they go. How they can fund that is their call. In the eastern metropolitan suburbs I would suggest that we have different approaches in different councils as to what level of services we provide in, say, HACC. We take individual council decisions about that.

But there is another growing demand on us: a greater expectation for us to meet the new challenges that are coming up that society is putting on us, such as environmental issues and disability access issues. They are quite strategic in nature and not day-to-day demand. I think that any solution from this inquiry should try and address how the Australian taxation system and the levels of government are going to address some of those other things.

We can get sidetracked by talking about individual services on cost shifting. My view is that we should draw the line on cost shifting. We are there, and no-one is going to retrospectively go back and fix any problems. We have funded 80 per cent of libraries and we will continue to fund 80 per cent of libraries. Let us get on with it. How we fund it is the real issue. If you take libraries, Monash will have a service standard of libraries which could be quite different to Whitehorse, which could be quite different to Greater Dandenong. That is our call; we should have to fund that. But there is a very different view about how the Australian level of government deals with those other major emerging community issues.

Ms BURKE—Just playing devil’s advocate, because I know Monash, you would have a better chance of funding it out of Monash than John would out of his council.

Mr Conran—That is a different debate for when we get to what the funding is. I am happy to start that now—

Mr Spokes—The point David and Warwick have picked up is important. Part of our difficulty is that we focus very much on one level of government. We need to pick up the challenge of actually talking about the system of government in Australia, in which there happens to be a number of players: namely the Commonwealth, the state and the local level. We need to begin to understand how that meshes together. I would suggest that Joe Blow's experience in the street is government at a local level. In many respects, local government has the function both of tapping into what those aspirations and needs are but also being a deliverer of a range of services. That is an issue that runs through the discussion paper—which I must commend the inquiry on; I think it is a very good piece of work that raises some interesting questions. But it did irk me a little to see there this sense that somehow you have to develop a level of accreditation or trust before you can be given some money to spend.

It is interesting to turn the discussion around the other way and recognise that, if those funds are spent, the real test is the electoral system as Warwick was indicating. Councillors are elected; sometimes they will make good decisions and sometimes they will make bad ones. If they make bad ones they will be tossed out. There is a sense of us trying to look at the totality of the system but in a way that strengthens the individual players.

CHAIR—I welcome that point. The reason why we raise the accreditation question is that, as you know, we have to be accountable and the expectations of accountability today are much higher than they have been in the past. I take your point about the elections as a way of, if you like, correcting abuses, misspending and so on, but I get the feeling that the Australian population expects you to move a lot sooner than that. We have probably seen that, for example, with regulators. APRA is a good example. Things like the HIH collapse should have been foreseen earlier. Whether that is right or wrong—I guess the royal commission will give us a view on that. When you put up something like accreditation, you are saying that the community is expecting that there will be a reasonable level of expertise there before we even start.

Mr Spokes—To extend the argument, I would make a distinction between specific purpose funding that is provided to deliver national or, for that matter, statewide programs. We all waste a lot of energy putting in submissions and trying to argue about the criteria to make sure that our particular patch gets a guernsey, which seems to me an enormous waste of time and energy. The bulk of the tax transfers may be able to be managed through specific purpose programs where you have very specific national agendas and where we are all clear what the rules of the game are. But there may be a capacity to use things like financial assistance grants much more to recognise that the other thing that local government does is build—I suppose in the vernacular of the day—social capital. It builds that sense of community involvement. There is a distinction between using that in a flexible way on the ground and then, if councils choose, to respond to the Roads to Recovery program, or whatever other national program may be around. Clearly, with the second group, you need a level of accreditation to demonstrate the capacity to spend those funds.

Mr Rowe—The issue of community expectation firstly is an issue that all governments face—state, Commonwealth and local government. The issues are different in many ways. In other ways they are the same. Governments with elected representatives have to work those things out themselves with the issues they put before communities before elections and in

dealing with the issues of the mechanisms of government. I am anxious on the question of accreditation where it seems to come that the tests that some spheres of government put to other spheres are not the same tests that they put to themselves. This is important when we consider that the language we use is about partnership and about three tiers or spheres of government. We are talking notions of joined up governments. Communities no longer simply accept the argument that we might say, 'This is not our problem; it is their problem.' 'This isn't local government's; it is the states' or the states say, 'This isn't ours; it is the Commonwealth's.' Communities expect more joined up responses. Communities expect more sophisticated responses.

I think the argument where the Commonwealth says, 'The moneys that might go to state governments are going to have all sorts of accreditations applied' is not the same argument that they put to themselves about the spending of the money themselves. The notion of distrust, about whether councillors can be trusted, raises the same questions about state governments and Commonwealth government. Elected figures have to respond to their communities in the same way with the same accountabilities—they can all be tossed out.

There is a motion within the discussion paper—and I support most of the direction—about the Commonwealth's share of taxation revenues to state government almost being like a gift to local government. The notion that Commonwealth is collecting, on behalf of a broader system of government that includes state and local governments, is not explained. It is more a notion that the Commonwealth is going to imply certain sorts of criteria and satisfactions it needs before it can consider greater levels of local accountability to local governments.

CHAIR—This is provoking quite a bit of discussion. Responding briefly to that last point, the Commonwealth carries the odium of raising these taxes. I guess it then has a certain sensitivity—

Mr Rowe—Local governments collect rates annually with an annual rates bill. The way the Commonwealth collects revenues through the GST and through a PAYE tax picks up all sorts of growth and all sorts of creep. There is no more accountable and transparent taxation in this nation than an annual rates bill where the percentage of increase is clearly evident and clearly accountable. Yet local governments have to do this with the constant eye of the state government, which says 'Careful, we don't want you to go too far,' and you are saying that the Commonwealth has to be cautious, too. It is evident in this discussion paper that the amount of local government revenue creep over last 30 years has not at all matched state and Commonwealth growth.

CHAIR—I was only halfway through what I was saying. There is always a sensitivity, as you will have noticed, in Commonwealth-state politics. This is not new because the states, as net receivers of tax, tend to always consider that the Commonwealth is inadequate in what it is handing to them. That is why there is a sensitivity. As we have seen in the grants commission figures—to take that last point you made—the Commonwealth has actually got a better record over last 25 years in terms of grants to local government than the states have. I think the Commonwealth has been going up 4½ per cent per annum whereas the states have been going up across Australia about 0.4 per cent over last 25 years.

Mr KING—I have two questions for Mr Spokes. You made an observation about social capital and how local government is said to generate social capital. First, what examples did you

have in mind? Second, I would ask you to comment on this observation. I have been surprised at the lack of ideas coming from local government about new areas of community involvement where they see themselves contributing to the Australian polity over the next 20 years.

Mr Spokes—To answer the first question, I am from a metropolitan council, but I will give you an example of one that operates in rural areas. The involvement in the rural fire brigade and the volunteer nature that service is a very real example of the sort of social capital that I am referring to. It is the sort of thing where there is a very strong relationship between the local council and community—people expect the a local town hall to be available for these sorts of activities. You can find many similar examples in the community service area, in particular, but I think it is actually broader than that. That is partly the reason why I suspect many of us have programs for these sorts of issues, such as trying to promote citizens of the year and citizens involvement. In fact, I would argue that one of the difficulties for local government in the past has been that it has a very poor press and a very poor profile. For instance, we are about to have elections in a couple of weeks. The council I was in had elections last year and another group of councils is going to have elections in another two years. I think it would be a terrific thing if we could get to the stage where all elections—either in Australia or at least state by state—for local government were had on the same day and you had a local government day where you would promote that sense of citizen involvement.

On your second question, I think a good example would be involvement in housing activity. My council, City of Port Phillip Council, has over many years been very active and involved in the provision and direct funding of affordable housing. We have received a lot of criticism for that in the past, but now there is probably increasing recognition that, ‘If that is what is appropriate in a given area, and you can use our funds to leverage some other Commonwealth funds, then that is an appropriate thing to do.’

Mr Johnstone—I am interested in the notion that local government has a responsibility to bring up new ideas—and I would agree with it completely. I think it goes to the very heart of what we are talking about: local government as a responsible level of government. I noticed a reference earlier to the suggestion of an ‘Oliver’ syndrome of always asking for more, and there was mention of being stuck with the residuals. Some of that is factual, I think, with regard to particular services, but I do not think it is the way local governments in this state have been operating.

I will give an example of the innovation that local governments in Victoria have contributed to over many years. I was responsible for aged care in the Commonwealth when it introduced the HACC program. It is a matter of history that the HACC program was built on the model of what local governments had done in Victoria in introducing home and community care. As a person who was at the centre of it at the time, I can tell you that that is where the model came from. Local governments took that on at ratepayer expense because they saw a need in the community.

This goes to the very heart of cost shifting. Local governments, as a responsible level of government, do not see themselves as simply being cost shifted onto but doing what needs to be done for their communities. Innovation should be the greatest challenge that all local governments face in identifying needs of their communities. I think that is happening currently in Victoria. Certainly, in Boroondara we have just established a community foundation, which is focusing on that issue of building social capital within the community. I could give a lot of other

examples but I think that that hits on an important point with this whole inquiry. Most of us, I think, would start from a position of saying that local government is part of a three-tiered system of government in this country. It is a responsible level of government. It is the first level of government, closest to the community, and it should be using that closeness to the community to identify community needs and respond to them.

I have one further point. The community clearly does not expect us to tax excessively when meeting community expectations. So we have to meet community expectations in a balanced way. As was indicated earlier by Andrew, being closest to the community we are very conscious of the impacts of increases in tax on our community. Last year Boroondara consciously introduced a 15 per cent increase in rates. We were very up-front with the community that we had to address issues of infrastructure. As a responsible level of government believing we had to meet those costs, we told the community where the infrastructure was failing and proceeded to introduce that increase. The notion of innovation goes to the very heart of local government as the first level of a three-tiered system of responsible government.

Mr Heine—Picking up Peter's point, there should also be recognition that, certainly in metro Melbourne, most local governments are using forward planning issues to explain to ratepayers and residents why they are looking to raise revenue. We have a five- to 10-year plan that quite openly says we are looking at rate increases of CPI plus 3 per cent as a minimum. That three per cent goes to infrastructure. It is accepted by the community. We get on with life and there is a reality about it. It is sometimes forgotten by politicians at other levels, who see the shopfloor level reactions to big rate increases, that at the end of the day it is the local councillors who have to bear it. You might get a few letters of complaint but at the end of the day it is the local councillor who is facing election. If their community is unhappy at the end of the three years they will give the councillor the boot.

CHAIR—We do not want to get this discussion into a them-and-us thing. I would like to think we can work together on it.

Mr Sides—The point I was going to make is that talking about tiers and so on probably disguises the fact that in many ways local government is part of a continuum. The analogy I use is the national communications policy, which has been exercising the Commonwealth's mind for a while. I have had a little bit to do with that. The thing that has brought that undone, time and time again, is what they call the last kilometre of copper wire. From all the big pipes through to the high capacity telecommunications, in the end getting it into the home is where the whole of telecommunications policy has foundered and has required changes in technology and innovation.

I think that analogy is pretty apt for local government. We can take something that is important as an example. Disabled access legislation is a Commonwealth initiative. In reality what that means is that I have to keep hedges cut back from fences and I have to reposition bus stops. In other states—not so much in Victoria—the council has to make sure that all the disabled access requirements are met otherwise you end up like Coffs Harbour, in a famous law case, paying out big dollars. It is a very simple initiative backed by Commonwealth policy and international agreements. In court, our opposition tells us that Australia is a signatory to an international agreement.

So what happens is that federal policy cascades through to the states. Things as mundane as making sure the fruiterer puts his fruit display on the right side of the footpath to comply with disabled access policy requirements, flow down. So part of this is to recognise that if you are not funding local government effectively and equally, you do not achieve Commonwealth policy. We are all part of the same team in the end. That is an important point.

Mr Foa—Going back a couple of steps, I would argue that a level of accreditation already exists for tied grants and that much of the funding that local government receives is tied grants. The HACC system has a very strict regime of standards and service levels that you must sign onto in terms of your service agreements and infrastructure grants. In talking about accreditation on a broader scale—in terms of funding untied grants to local governments that are perhaps performing better than others, as per the UK model—there are some systems of measurement across local government. Although we did not necessarily agree with it, the Victorian state government recently released performance indicators for councils. They released them to the papers before they released them to us. There is a regime for measuring overall performance or, indeed, satisfaction levels within local government. But, certainly for the majority of the funding we get, I believe we are in an accreditation regime already, and we are meeting minimum standards and Commonwealth policy.

Mr KING—What accreditation process did you have in mind? There are several models, including agreement, supervision and the Commonwealth setting standards to be followed by the donee or some other. Did you have in mind a specific accreditation model that you think is successful or that works?

Mr Foa—The point I was making was that we are already under an accreditation model for tied grants and I was not suggesting that we would be under one for untied grants. The confidence of other levels of government in local government has always been tied to whether we are meeting minimum performance criteria indicators against tied grants. That seems to be working—or we seem to be able to deliver upon Commonwealth initiatives in terms of those areas. I am certainly not advocating bringing in a scorecard regime across areas of untied funding for local government.

Mr NAIRN—I get the feeling that there is a certain amount of resistance to accreditation which, I think it would be true to say, we have not found anywhere else in the hearings. When we have raised accreditation, most of the responses have been: ‘We have no problem in saying we can provide the service at a particular level, and we are happy to contract with the Commonwealth, the state or whoever is paying the money.’ I get the impression here this morning that there is a certain amount of resistance to this.

Mr Spence—The point is that we are doing it now. This is not a new message. Look at the Community Aged Care Package. Most of the councils in Victoria are running CACP in a direct relationship with the Commonwealth and are doing it very well. But I do not think the model works very efficiently in a structural sense, because you are running HACC and CACP together. That is for a different debate. But we are doing it. Maternal and child health, HACC, CACP and tobacco delivery are all delivered in a direct contractual relationship.

Mr NAIRN—In which case I would not have thought that there would be any resistance to it.

CHAIR—I think it is more that a certain level of service is expected if the funding is going to come through.

Mr Spence—That is a given in the model we are in now. The standards are set. The successful models we are starting to see develop in the state with local governments are not models where we enter service delivery through a piece of legislation but where we enter service delivery through a contract. That contract has a term and given revenue streams, and the councils can then provide the services within the contract. That way we do not get caught with cost shifting.

Mr Johnstone—The issue of contractors is absolutely critical to this. Most of the areas where local governments provide services that are funded to some extent—and I stress ‘to some extent’—by the state government or by the Commonwealth government are in fact partnerships. I do not think local governments have any difficulty whatsoever taking on any responsibilities by agreement to provide a service in accordance with contractual requirements.

The issue is when local government is contributing to the provision of that service. That is not a contracting arrangement in the same way as you or I might contract somebody to come and do a job around the house or contract to lay roads or whatever. We do not expect private operators to contribute to what they are contracted to do. In the case of local government getting tied grants it is often put in that situation. The tied grants do not only have conditions of accreditation on them but have conditions about local government also contributing.

The reason local governments happily take on that responsibility is because they see that responsibility and that service as actually contributing to their community’s wellbeing and that it is appropriate to contribute ratepayers’ funds. But that means they also have a say in how those services should actually be provided. It is not simply a contracted arrangement whereby the local government is purely acting as an agent.

If I could add to that, on the issue of accreditation I am happy to identify as one who is very nervous about accreditation. I say that in the context of what has happened in the UK, where I would stress—since there has been a lot of reference in some of the papers to the UK—there is an entirely different model of local government. In the UK they have a system of accreditation—performance indicators, league tables, stars and dogs in measuring councils—with a whole different range of intergovernmental relationships where local government is responsible for education, child protection and a range of other matters where they do in fact treat local governments much more as agencies of the central government. That is not the tradition in Australia. I would like to suggest that local governments, if treated as a responsible level of government and held accountable for what they provide, are quite capable of doing that sort of thing without accreditation as a system and all the bureaucratic compliance that is associated with it.

Having said that, I have to say some of what was in the paper about accreditation might offer a way through. There the quote about the IDeA system in the UK, which is independent of central government, running an accreditation system is worthy of looking at.

CHAIR—Thank you. I wonder from the rural point of view whether John or Jennifer would like to comment?

Mr Costello—It has been said before that the amount of accreditation that we go through now on individual programs is high. There is a high level of accountability and accreditation there. There are also a lot of things we do that I get very annoyed about, like producing annual reports that no-one seems to read—things like that. There is an enormous amount of accreditation actually built into producing your annual report, with the systems that are in there behind it. But those sorts of things do not seem to be used in assessing a council. To me, accreditation can mean that we might waste a lot of money in going down a path of trying to conform to this national accreditation system, where one size does not fit all again, and we end up having someone on staff just to produce reports and do all that without getting on with the real job.

The idea about the contract: I am very familiar with contracts. We operate a very big business arm. It is bigger than the council. Not many people realise it but that is what happens. We are very used to doing everything by contract and it is a very simple way of doing it. You know your rights and responsibilities, you know what level of funding you are putting in and at the end of the day you can very easily measure the outputs of it because a lot of it equates back to unit costs—how many hours of service you have delivered for X amount of dollars. All that level of accreditation is built into there.

I agree with Peter there might be some overall system that draws it together. I do not like the idea of rankings of councils because councils are different sizes and have different ways of doing things. But you should be able to justify how you have delivered a service, even if it is by unit cost or whatever. That is a simple way of doing it.

Ms Tod—I think there are good reasons for accreditation. If you are living in a rural area the last thing you want to do is go to a hospital and not know that it has passed the level of accreditation. You want to get the same health services out in the country as you do in metropolitan areas. There are other services that are provided to rural communities where you can accept a different standard of service. We need to be very careful that we do not put accreditation in that requires rural councils to provide services to a level that is not needed.

Sometimes when you are tying funding you are actually taking a council away from its corporate agenda—what its community wants. The fact that the funding is tied to provide services to a particular standard means that the resources of the council are applied to that service, whereas the community probably would accept a different standard of service. There is definitely a need and a place for accreditation, but not all the way through.

Mr Conran—My concern in the paper regarding the accreditation process is that it seemed that we were actually going to reduce FAGs as a result of the inquiry and set up an accreditation unit to somehow accredit councils for their utilisation of the general purpose FAG Scheme grant. That is what I am a bit concerned about. We have got the auditor-general, we have got annual reports, we have got business plans, we have got performance statements, we have got key performance indicators—I can go on and on and on about our general level of reporting to state government. These are not important to our community. All these things are designed to report to state government. I would have thought that you could look at a council and say, ‘Have they got the capacity to do something without another level of accreditation?’ Because, if you set up an accreditation unit, we will be filling out bits of paper and spreadsheets, and I will have more people employed to satisfy those requirements of the council.

However, if you are going to do a thing like a Roads to Recovery Program, I have got no qualms about signing up to, 'We will spend this amount of money on these projects and we will achieve these results.' I also have no problem signing up to HACCs, saying, 'We will deliver these services for this amount of money.' That is fine—I will contract for the hourly rate if I want to. What worries me about accreditation is this: I think we are the world champs in Victoria at running nursing homes. Accreditation goes so far to start off with. Then issues arise and the levels of accreditation go through the roof. The accreditation levels for nursing homes are getting to the stage where we are starting to think about whether we will bother.

So I am worried. Setting standards or performance arrangements starts out as a great idea but I am concerned that they will go the way that others have gone. I mean, how many bits of paper do we signed off on for the HACC funding. The bits that come through my office are about 40 millimetres thick. I must admit, I do not read them all. I make sure that the basic information is okay, but the level of detail is such that I bet they are no even read when they get there.

CHAIR—Can I make a couple of responses. On nursing homes, I think you can see the political sensitivity of that—

Ms Tod—David knows about the political sensitivity of that well, but I will not recount his 'little old lady' story.

CHAIR—To make one other observation, the discussion paper is there to promote discussion; it is not there to indicate what the committee has made its mind up on. We are looking for input at this stage. I would like to make that quite clear.

Mr SOMLYAY—I address this question to all those around the table. Do you feel that there is a level of awareness in state government or federal government about the impact on local government of a lot of these decisions? At the federal level, when an item goes to cabinet, there are certain things that are required—an environmental impact statement and an economic impact statement. Do you think that the Local Government Association, maybe, ought to be pressing for the production of a local government impact statement, so that everyone around a table prior to the implementation of the policy—whether at state, federal or joint level—is fully aware of the impact on local government and the ratepayer? Are there any comments on that?

Mr Heine—It is an admirable idea, but the more we tie this down, the more I think we lose what is one of the strengths of local government in Australia. Whether you are a federal or state MP who has been through local government or a current councillor, one of our capacities is to innovate, one of our capacities is to go and meet those demands that come up off the street—whether it is community safety, drugs or home maintenance. There are things that come off the street. The more you tie us down—the more you get into impact statements and so on—the more you are going to bog the system down in more and more reports and more and more analysis.

Mr SOMLYAY—I did not suggest that you should use those impact statements but that the Commonwealth or the state produce them.

Mr Heine—I realise that, and I was just going to come it. I think the consequence of that, though, is that you then have another level of interrogation of local government from another layer of public servants. For instance, this week I have had three questionnaires emailed to me

from the Commonwealth, asking me to fill them in urgently. I have to say that I am not going to respond to any of them because, when you look at them, you would say, 'Why would you waste your time filling them out?' I expect that one of them would be about 10 hours work to work out what the top five Commonwealth government departments which I interact with, how do I do it and what is the nature of it. I do not know whether anyone else is going to complete it, but I am certainly not. That is the dilemma that we start to build into this system. One of the really valued things we have as local government administrators is that we are innovators. We are often the ones who drive social agendas back up through the political system. If you tie us down and make us rigid, you are going to strip that away. I think that way we would be losing a rich level of government in Australia, which would be really tragic.

CHAIR—People may misunderstand that when we talk about accreditation, it is really about the overall council performance as much as about accountability itself. Some councils perform better than others—some, for example, have gone heavily into debt. The question is: how do you would treat everyone in that situation? If one lot of councillors is clearly creating problems, an election may tip those councillors out but that does not remove the fact for the next lot of councillors that the council itself has got serious problems.

Mr Heine—We deal with that through the contract system. The contract system sets out the conditions of the contract. You sign the dotted line and agree to the process.

CHAIR—We were just told that people did not like contracts.

Mr Johnstone—I will be quite clear: I said that we are quite happy to take on contracts where we are being provided with the full cost of providing a service as a private sector contractor would be. I have no difficulties with that at all; in fact, as I also indicated, I do not have difficulties with some forms of accreditation. The difficulties I have are those expressed about the bureaucratic systems where essentially you have got people protecting their backsides in Spring Street or in Canberra, who want to be able to say to their ministerial bosses, 'We have got this covered, and if something goes wrong, well, we did ask the right questions.' Whereas the sort of accreditation referred to in the discussion paper, if I understand it correctly—I forget what IDEa even stands for—

Mr KING—The Improvement Development Agency.

Mr Johnstone—is not a national government body; it is owned effectively by local governments. Aside from any control and compliance—which national and state governments are prone to have in their dealings with local government—being removed from it totally, it is rather that local governments and the community have access to this independent body of work that not only sets the sorts of standards that are appropriate but also has regard to the fact that one size does not fit all in local government, because we are local governments in order to respond democratically to the needs of different communities. So that is quite different from an accreditation system which is designed for control and compliance purposes—which most of them are.

Ms Dale—I might be wrong about your question but I thought it was: do state and federal governments consider the impacts of legislation on local government? I think the simple answer is: no, they do not. We have over 20 pieces of legislation that we have to deal with on a major scale, whether it be the litter act, et cetera. I also mentioned the environmental impact on

Nillumbic. As Stephen pointed out in relation to the building control commission, a whole raft of legislation that gets passed at state and federal government level has a definite impact on local government, and that is never put into any costing factor. I think the simple answer is: no, it is not. That is my view. If that is what you are asking, that is my answer.

Mr SOMLYAY—That is the problem. What do you suggest as the solution? I suggested local government impact statements. When governments make a decision, they should take into account the impact on local government. We all know this cost shifting is occurring, be it federal or be it state. I am asking: is that being done deliberately or is it being done by stealth so that a state can claim to be a low tax state and pass the cost on to local government, on to the ratepayer, or is it being done through ignorance? If it is ignorance, it is fiction.

Ms Tod—Perhaps not an impact statement; I think legislation and strategies require an implementation plan. Too often state and federal governments are developing strategy but are not concerned with how that strategy is going to be implemented. Local government, particularly in the rural areas, is the only level of government with people out in the rural areas so there is an automatic assumption that local government is going to be responsible for the implementation. And the way that it is done—it is not really so much by stealth but it is fairly subtle—is through our planning scheme. One of the best examples is the former department, DNRE, which is now sustainability in other departments. It does not have any staff on the ground to look after the very strategies that it is trying to implement on native vegetation and weed control, but it is putting that into our municipal strategic statements, into our planning scheme. No funding is provided for local government to actually go out and implement their strategies. It could have been solved if that department, when they developed the strategy, worked out how they were going to implement it and then given local government the funding to go out and do the job that they want us to do.

Mr Spence—I want to pick up on the point that we have been following there. As I understand it, the Queensland model and the agreement between state and local government in Queensland effectively requires a statement in the cabinet submissions on any legislation that impacts on the local government sector. We have been endeavouring to get the same outcome in Victoria, to this stage without success. The intention is really to get some sensible debate about the cost impacts in production of new legislation. We are getting to a point where we could be successful in achieving that with the state government because they are now starting to address, for the first time, the cost-shifting outcomes in this state and we are seeing movement in both HACC and maternal and child health. Now that we have crunched the numbers and we know exactly what is happening and we can stoke the case, there is recognition that more work needs to be done when policy is implemented at the state level to ensure there is no knock-on effect into the councils. Or that the knock on-effect is understood.

Mr Emonson—I want to pick up on the point of impact statements. My perspective is that impact statements may have a role where there are significant responsibility shifts through legislation et cetera, where it is clearly identifiable that there may be an impact shift. But much of the cost shifting that occurs happens progressively and incrementally through a whole range of measures other than just legislative change. So while an impact statement or some form of thinking around impact where there are major policy or legislative shifts may address that, a major void in that approach would be the incremental shifts in cost shifting that occur, which progressively and cumulatively is what is having the major impact over time.

Mr SOMLYAY—How do you overcome that?

Mr Emonson—I am not sure I have got a solution for it, to be quite honest.

Mr Spokes—I have a suggestion about one of the things that could be done. We do not have any mechanism for federal and state MPs and the mayor of the local council to come together in a regular forum that is part of the structure of government. This would reinforce that sense of a whole of government approach rather than there being three different competing spheres of government. Part of their job and function can be to not only keep a check on that incremental shift but also see the impact and the result of the expenditure of the untied grants. It is another way of getting some accountability in this. I think that sort of process can be developed.

Ms BURKE—A majority of your submissions indicate the overlap, I suppose that is the other thing that comes in. HACC and CACP are probably the greatest examples in Victoria of that overlap, especially when you bring in linkages programs and all the other things such as DVA and who is actually doing it. You can find one individual who is playing the system beautifully and she has got her maximum hours from council and her maximum hours from DVA and maximum hours for linkages. I know of one such woman; she is brilliant, but she still wants the community bus to come from Boroondara into Whitehorse and cannot understand why it will not do it. There is that overlap that needs to be ironed out, and that follows on from your point. I do not know if one breakfast every couple of months is going to resolve that. Is there a way of actually doing that as opposed to saying, ‘This is what levels of government do, let’s not tread on each other’s toes so that we are all competing for the same bucket of money to provide the same service to the individual.’

Mr Spokes—I was not suggesting a breakfast every now and again. I was suggesting something quite fundamentally different. There is an added layer of structure.

CHAIR—We have thrashed this around for a fair while.

Mr Rowe—There is an added layer of complexity. Apart from the obvious examples we have talked about, there are issues which local governments end up picking up that are resolved at Commonwealth or state government level—industry reform; those sorts of issues—that you probably could not develop a local government impact statement for but will impact on different local governments working out what is in the best interests of their own communities and in their own local and regional economic development strategies. These go to education issues; health issues. All sorts of decisions made at other levels of government can have impacts on the way local governments have to mop up.

Local governments have had to respond to communities in a lot of pain during the refugee crisis through *Tampa*. That impacted on lots of different communities who had large Islamic communities within them. That was, again, an example of where local governments had to respond to the on-the-ground, local issues that were a consequence of the decision making of other spheres of government.

Mr NAIRN—Before we leave this issue—

CHAIR—I was not going to leave it. What I was going to say is that I wonder if we could look at option 7 in the discussion paper—which talks about local government and the planning ministers council—whether that would tie together all the sorts of points we have been making.

Ms BURKE—The only thing I will put in play, as I said in Tasmania yesterday, is: who represents the 700 councils? I will throw that open to the group. Who is the voice? No disrespect to your peak body but we were not terribly enthused when ALGA came to Canberra because of their inability to say they were speaking on behalf of councils. I will put that in under my devil's advocate role. Who is the voice of 700 individual councils?

Mr Johnstone—No-one. There is none. Who is the voice of all state governments? This is part of the system that we are trying to deal with.

Mr KING—You were not asking colleagues; you were asking—

Ms BURKE—No, I was just throwing in the devil's advocate position about option 7.

Mr KING—We want to hear from the people here.

Mr NAIRN—The point I was going to make was that the HACC program seems to be, particularly here in Victoria, the top issue, so to speak, of difficulty and of how costs seem to have been shifted incrementally over a period of time of time.

Mr Johnstone—From the Commonwealth.

Mr NAIRN—Not necessarily. That is what I want to get—

Mr Johnstone—You are saying it is not the top if you compare it with state ones?

CHAIR—I think we should have a discussion on HACC. We will come back to that, if you like. We will wrap up this other point.

Mr NAIRN—You want to come back to HACC?

CHAIR—Yes.

Mr NAIRN—I am sorry. I was trying to use HACC as an example. We seem to be getting around the points and saying, 'I don't know how we fix this with incremental change,' et cetera. If you understand what is actually happening in a particular example then you might have a chance of determining what is to be done. Whitehorse has given evidence that when HACC started it was 40 Commonwealth, 40 state and 20 local government. They say local government is now 30 but do not say what they other percentages are. Is that the case across the state? What are the percentages now? Is it still 40 Commonwealth, 30 local government and now only 30 state rather than 40? Or is it 30 Commonwealth and the states have maintained theirs? It seems to be different in various states. How has that occurred? There have not been any changes in legislation so the legislation aspect of it is not something that you can attack.

Mr Spence—The Commonwealth-state shares are basically running as per the original agreement. What has happened is that local government is picking up the service demand so it has expanded its spend because of the pressure to receive the service because this state has not got a high density of residential care facilities. This is accepted nationally, other states have a much higher residential care proportion and much lower home care proportion. In Victoria, the councils have picked up the slack. We are working in a national game on distribution of HACC funding, Victoria has taken up every dollar that has been available to us, other states have not taken up as much. It is quite a complex issue.

What the councils are now doing is absorbing the growth funds and not adding ours. So we are actually pulling the dollars back but it is affecting the service standards so there is a contraction on a per capita basis in the service.

Mr NAIRN—So what you are saying is that it is now 35 Commonwealth, 35 state and 30 local government?

Ms BURKE—No, it is not that simple.

Mr NAIRN—New South Wales is very different.

CHAIR—Can we come back to HACC? HACC is a very topical issue, particularly in Victoria. Are people attracted to the option of an intergovernment agreement between the planning ministers and Commonwealth and local governments, on this?

Ms BURKE—If people want to read it, it is option 7, page 34 in the paper.

Mr Spence—Part of the complexity of an option like this—and it reflects the comments that have been made about the ALGA in presenting the position of the sector—is that each of the states has a very different model. Each of the states has a very different view about how their local environment works and it is quite difficult for the ALGA to represent the sector. When the negotiations get to such a high level you lose the sensitivity of the local issues. It is very hard to do.

CHAIR—There would be state ministers who would be able to put the different views together. It would not just be ALGA trying to represent all councils.

Mr Spence—If you speak to each of the CEOs around the table and ask them how much time they spend, for example, dealing with the local government ministry relative to every other ministry, local government is an absolutely minuscule part of their activity. The high level of activity would be with the Department of Infrastructure and that ministry, the Department of Human Services and that ministry, and the Department of Sustainability and Environment. If you put the local government ministers around the table I think you are missing the game.

Mr KING—We are talking about a national scheme. The scheme at 3.72, which I think Mr Johnstone raised, is looking at the possibility of adapting the British model. That model seems to have a very positive approach to encouraging local government, notwithstanding the differences in various types of agencies and authorities around the country, to work with the Commonwealth to try to address some of these issues. If what Mr Somlyay suggested, or

something like that—maybe a community impact statement—was linked with that, you might end up with better programs.

Mr Spence—I accept the issue of the community impact statement. I am questioning how successful you could be, through a local government and planning ministers conference, at dealing with the issues that are facing the sector. Our focus is not, in a major sense, through the local government ministry or through the planning ministry; it is through a whole array of major service lines that affect broader state and Commonwealth service delivery.

CHAIR—Wouldn't this be the way to get an umbrella agreement?

Mr Johnstone—I see what is trying to be done but it tends to assume—this often happens for local governments—that state local government ministers can somehow speak on behalf of local governments but that is just the local government function in state government. What we are trying to say is that local governments are a different sphere of government. State governments have to deal with local governments so they have a local government minister. That minister is also given certain powers under the act, but we see that minister as representative of the state government, not as anyone who has any control over local governments—in terms of direction or management—or somebody who can speak on behalf of local governments. Local governments, because they are democratic entities, are elected to represent the different communities. That is why it is very difficult to get our views, just as it is to get the states' views—but you only have six of them. You have 700 or so local governments so you need different models for dealing with us.

On this option, I think there are very few cases of transfer of functions and responsibilities to local government that are likely to come up. It might be that I am missing something, but I totally separate out the contractual notions when, say, the federal government wants its supported housing money administered by local government. It does not want to give up the policy and it is most unlikely to give up financing it. It would not say, 'Finance it yourselves.' It would be providing the money and saying, 'Do it this way.' And that would be negotiated. Quite frankly, I would not want local government ministers negotiating that arrangement on our behalf. We would hold our peak bodies accountable for doing that. And we have to get a lot better at holding them accountable and responding to them. At present we do not accept enough responsibility for them, hence the comment about ALGA.

Mr Heine—You also see some of the changes that have taken place with local government in the status of local government ministers within state governments. If you go back two decades, local government ministers were one of the core, prime ministries that politicians aspired to. Today, with due respect to those ministers, it is a relatively junior ministry because—

Mr GRIFFIN—Mr Tuckey would not agree with that!

Mr Heine—of exactly the issues that Rob Spence has raised. Dealings with other parts of government are much stronger than those with local government. Local government ministries are not playing a joined up government or coordinating role in Victoria. It has become very much an administrative, just about nitpicky, compliance issue. It is not one that is going marching across other departments. I think that in itself is an issue that you can see has happened nationally. South Australia does not even have a local government minister at the moment. I do not think they do.

Ms BURKE—Yes, they do.

Mr Spence—I think that, if you are trying to cut an agreement nationally, it is really hard because the make-up of the councils in each state is so different. I looked at the stats on the size of Victorian councils relative to the other states and the mean turnover of Victorian councils relative to other states. You are trying to deal with what appears to be a homogeneous environment, but in fact it is not. The variations are enormous. I think we see that confrontation when we have a discussion of the ALGA around the table. You are dealing with a lot of small councils with very low populations, and in Victoria that is not the scene. I think that to actually form an agreement on principles and so on is very hard to do.

CHAIR—We have only been talking about the basics. I am just looking at the time. We will take a break.

Proceedings suspended from 10.31 a.m. to 10.48 a.m.

CHAIR—I wish to raise one point before we have a discussion on HACC and cost shifting generally. Option 7, with respect to the Local Government and Planning Ministers Council, talks about principles and procedures, not about trying to get down to detailed discussion on each individual program. I really want people to come up with some ideas on how you would feel if, as David said, we drew a line in the sand or we tried to look at where we want to be in the future—down the track a bit. How do people feel about trying to get something like that in place as a way of getting a better system to work for the benefit of, particularly, local government and something that we hope will also have positives for the whole nation? Does anyone have some responses on that?

Mr Sides—With that particular recommendation—

CHAIR—It is only a suggestion; it is not a recommendation.

Mr Sides—With respect to that suggestion, we would probably see it as having some workability if peak bodies are represented as well. I think that is really the point we are making. The ministers do not necessarily represent our interests but our peak bodies do, and they are often at loggerheads. Local government departments are often organisations in search of a mission and, if they are in a venue like that, they may well seek to enhance a role rather than to benefit our roles.

CHAIR—Another is already involved.

Mr Sides—Perhaps I can go back to another issue we were talking about: accreditation and measurement. I think perhaps some of the nervousness around this table is because we had a tradition of measurement and accreditation in Victoria far more strict than those other states have had. Even now I think it is used and abused a bit as a leagues table. That makes us a little bit suspicious. But, that aside, around this table—I know most of these people pretty well—there is a high degree of measurement. I use highly sophisticated balanced scorecard methods—and I know Graeme does, too—which I doubt many private enterprise systems would use. So I do not think we have a fear of measurement. I do not actually share the fear of accreditation that perhaps some of my fellow members have.

I think the important thing about accreditation is also to see it as a diagnostic tool. Our fear is that it is purely seen as that, if you get a certain level of score, you are punished or listed as that. I think that is probably a pretty human fear. But I do not particularly mind some form of measurement if it also has some diagnostic ability. With that might also go positive funding to correct the problem. If there is an infrastructure problem in an area, there is no point in punishing them further; it has to be fixed. Sometimes, if there is an infrastructure backlog or a problem, we have to be asking questions like: is a dollar of backlog in one area in the national interest? Is it more important to fix a dollar of backlog in bridges in one area or a bridge in another area where it is maybe a key commerce link? That is where I think accreditation can be useful. The after use of accreditation can be a positive tool in the distribution of funds.

Mr Spokes—Just extending from that: I think there is some scope for some form of council or meeting along the lines you described. I would share the view that you may not quite have the right membership. But I think it can begin to focus on the question that Hadley has just raised of beginning to understand what some of the regional priorities are and the fact that there are differences between the regions, and begin to be a forum so that it can start to assist the sector generally to decide which areas are going to be supported and which other areas may not be.

That is perhaps linked to the issue that I think is a theme in the discussion paper: the viability of councils. I think the experience from Victoria is very clear. I would argue that amalgamation has been successful, by and large. It has increased the quality of the decision making and it has increased our capacity for forward planning. I think that, if you have a council that can start to think about how you lift the performance of the remainder, it might be that you can provide the financial assistance grants to those groups, as John Costello was reminding us this morning, rather than using them as a punishment by threatening to withhold them from somebody. Clearly, the rural shires have a real capacity problem. What can we do to actually build that? That can be supported by its sense of regional priority if, in their area, they need to have the bridges fixed.

Ms Tod—I am sorry, but I do not think the rural shires have a real capacity problem. We have great capacity. If you give a rural community a dollar, it is well known that we will turn it into many dollars. Take some of the towns in Yarriambiack: give them \$50,000, and they will go out and build a roundabout and put a sculpture in. It has great social capacity because the community has built it. It is not going to be vandalised; we are not going to have any problems with that. I think the rural communities have great capacity.

What we appear to be overlooking is that local government responds to members of the community first and foremost. They are elected by members of the community and, whether the state or federal government puts new impositions on local government, the councillors will be answerable to their communities first and foremost. They will do what those communities want. So, if we are going to look at imposing new functions on local government, the key to it is: where is the money for local government to provide those new functions? Who was providing the function before, or is it a new function? Who is going to pay for it? In most cases, somebody was providing the service before. We have the capacity to provide the new functions: we have people on the ground and we have great capacity to attract people to the regions as well. It is just that we do not have the money to provide those services. Whenever there is any consideration of imposing a new function on local government, the key question is: how is it going to be funded?

Ms BURKE—Jennifer, I asked a question at the outset when you were not here about meeting community expectations when the pot is finite. Within a federal office I can say to constituents, ‘That’s not my area of responsibility. You will have to see your state member about that,’ or ‘You will have to see your local councillor about that.’ There are defined areas that the Commonwealth and the states are responsible for and the lines are there. Sometimes we will do a letter—these councillors can testify that they have had many from my office on behalf of a constituent with respect to a local government issue—but I know what that is. I know what will happen if someone comes to a state member re an immigration matter—they will say, ‘Go and see Anna. Immigration is a federal responsibility.’ I do not think we need to define it, but we cannot keep forever saying, ‘Local government is just going to be a grab bag of everything,’ because we are never going to be able to fund that.

Mr Heine—Mr Chair, I would like to change the direction of the discussion a bit. When I read option 7 my mind went in a different direction. It seems to me that we have a federal system where there is no requirement for the government to set a national agenda for local government and there is no forward agenda for local government. We do not know where you are going or what your plans are. So in fact, to address Jennifer’s issue, if there is surplus money and there is capacity, we have no—

Ms Tod—I didn’t say surplus money; I said capacity.

Mr Heine—If you are looking at this concept of having a group together, perhaps the issue that needs to be discussed is agreement on a national forward agenda for local government and the role you want local government to play in the three tiers of government. I think that in part addresses Anna’s issue of what the roles are and how you integrate those better. I wonder whether what you have got in option 7 could not be turned around in a different direction to say, ‘This is a discussion where the national agenda for local government for the next five or 10 years is debated.’ We know it is going to change with politics, but at least we could get some commitment from the Commonwealth level that local government has a role to play in the three tiers of government and should be part of setting a national agenda.

If you do that, there are issues that flow out of that. I do not have a problem with horizontal fiscal equity. In my view small rural councils should get more dollars because, at the end of the day, they are part of the national system. The bigger councils have capacities to raise issues far beyond theirs. We should give up that issue, but there will be a lot of debate around that. It is the vertical issues around what agenda you want us to achieve that concern me. What do you want us to achieve? We need to know. So I think we have to put some pressure back at the Commonwealth level. One of the things I have noticed in the debate this morning is that a lot of it has come down to our level and how we influence upwards. Let us focus up at the top and say, ‘How do you cascade down to say what you really want us to do?’

CHAIR—That is a valid point. You raised one issue which I was going to bring up: the minimum grant. Are there any views around the table on that?

Ms BURKE—Hands up who is getting the minimum grant.

Mr Johnstone—Boroondara is getting the minimum guaranteed grant. I should start by saying that the former council of which I was CEO was Northam, which was not getting the minimum grant, and I probably underwent a bit of a conversion. I have been through many

conversions in my life as I have moved from Commonwealth government to state government to local government but, at the end of the day, I find that that has given me a very rounded view of the world—

Mr Foa—And made you well qualified to speak on the matter.

Mr Johnstone—and therefore I am well qualified to speak on the matter! Having got that out of the way, it seems to me that in the paper there is not enough discussion of vertical fiscal equity, as Warwick was intimating, and not enough discussion of how you bring together horizontal fiscal equity and vertical fiscal equity. I agree completely that we must have regard to the different circumstances of different local governments. Indeed, that is the essence of just about everything we have been discussing this morning—that one size does not fit all. The very nature of local government is responding to the different needs of different communities with different sized populations, different revenue bases and so on.

The question that comes with this is: how much money, as a sector, does the local government need and how much can it have access to? It seems to me that those grants are primarily about horizontal fiscal equity. That would, *prima facie*, be an argument against a guaranteed minimum grant. However, the guaranteed minimum grant is very much about vertical fiscal equity. Local governments need a transfer of resources from the two other levels of government to local government, because of its very limited revenue base. That is a separate issue I could come back to.

If we got a share of a growth tax I would see no reason why FAGs should not be distributed purely on a horizontal basis—and forget the guaranteed minimum grant. Given the different local governments, there is an overwhelming argument for saying that you have to have horizontal fiscal equity for local governments—not just between rural and metro but within metro, and within rural and regional areas. At present we do not have any other form of vertical fiscal equity and as long as we have that situation there must be the guaranteed minimum grant. That makes a difference to the bottom line of our budget. It is not that my community do not have a right to it; they have as much right to that share of the taxes that they contribute to the Commonwealth level as anyone else.

I am not here to argue against the horizontal side; I am here to argue that you can talk about transfers of functions but you also have to talk about the revenue base. This paper goes pretty close to saying what we would all agree about the revenue base for all local governments, rich or poor. My local government might be in what seems to be a rich area. It is not a rich local government from the point of view of its balance sheet, overall. It is a matter of redressing that problem. Then there is a separate issue of the extent to which you transfer functions from other levels of government, with the appropriate money. The only reservation I have with option 7 is what it is going to talk about and who is going to make the decisions. Apart from that, the notion of having a forum in which these things can be addressed sensibly is an extremely good suggestion. But I think we firstly have to talk about vertical fiscal equity; that is the essence of it.

CHAIR—I think the rural shires would have different views on that.

Mr Costello—The only thing about option 7 that hit me in the face straightaway was that it talked about procedures for future transfer of functions and financial obligations to local

government. The way I read that was that they want to give us more things to do and do not want give us the money or the revenue raising capacity to go with it. My comment about that was, 'If you're going to give us more functions and financial obligations to fulfil those functions we need a share of GST, or whatever else it is going to be, to take on more obligations.'

CHAIR—That is a fair comment.

Mr Conron—I would like to reinforce the issue that Warwick raised. When I read the paper I became confused about what the Commonwealth saw as the priorities for local government. Until you think about that I am not quite sure how you can start talking about shifting money around. What is the problem that we are trying to fix? Do we have a historical problem that we are trying to fix or is there a vision about programs that the Commonwealth wants us to participate in, in the future—for example, the environment? Is there some frustration that we are not delivering some of the policy objectives of the Commonwealth? What are we trying to fix?

If you take my principle you would draw a line in the sand and say, 'We're here now; we've cost shifted; let us be aware of it.' I think we will be a lot better at resisting cost shifting in the future. If you do that, what is it that we are trying to fix? Are we trying to fix the rural and regional funding of infrastructure issues? If we are, we have a few options to do that, haven't we? We can increase the total level of financial assistance grants and give the country a greater share or we can redistribute the current financial assistance grants and therefore get the metropolitan ratepayers to fund the problem in the country. The Commonwealth can do what it did with things like the Roads to Recovery program and target specific funding programs. I was a big supporter of that because the benefits were clearly evident, even in the metropolitan areas. Or you can do nothing and just say to those local governments, 'Keep punching the way you are going.'

CHAIR—The point that I would like to make is that the thrust of the inquiry was to try and determine the nature and extent of the cost shifting and, having done that, to come up with some solutions for that. I am not sure that we have to jump too far ahead of identifying that problem and determining how we address it. That is really what we are trying to look at.

Mr Foa—It seems that in some of the UK analogies there were very clear objectives around what they wanted to achieve, because the national priorities on the ground, such as community safety, housing and those sorts of things, were all delivered by local government. For national priorities to be successful, local government had to go through a reform process; hence the accreditation and funding that went to high-performing councils. It seems as though they did start at that principal level and say, 'What is it that we want this level of government to achieve on a national basis?' Rather than coming at it from the point of view of: 'What is it that local governments do now, what could they perhaps do less or more of and how would we fund that?' it seems to be coming at it from a different end to the UK experience.

CHAIR—The reason I want to keep on the question of cost shifting is that, unless we identify it, it will be an ongoing problem for local government and will reoccur in all sorts of ways. I thought we could get a discussion going on HACC funding because, as I read it, the problem with HACC funding is an example of where the changed functions surrounding the provision of a service have put the pressure on it—that is, in this case, the changed usage of hospitals. Likewise, someone has pointed out that, if B-doubles are allowed to use local roads,

that puts a form of pressure on beyond the pressure caused by the way that service was formerly provided. That is why we want to identify these areas and get this part of it right—so we can encompass the other points that you are making.

Mr Costello—On the HACC matter, we raised before—

CHAIR—We can have a HACC discussion now. It is obviously a big issue, particularly in Victoria.

Mr Costello—I was going to try and set a scene for it. Before, we were talking about a 40-40-20 split. But I can remember filling out HACC forms as a junior admin officer. When I looked at what I used to put in for the council's 20 per cent, all we were allowed to put in was that. We could not put in all our admin costs and things that were involved in delivering the service. So the way the costing was done 20 or 30 years ago—or however long ago HACC started—was very different to the way we cost things these days. In comparing those statistics, the base we used was nothing like it is now. That is one point.

Another point is that the various councils that I worked in, mostly in country areas, built up an expectation that they would provide a level of service through various HACC services, no matter what they were, but only a fixed amount of grants funding came in. So the councils said, 'We'll put another \$50,000 in and increase the number of hours of service that we are providing.' That is where the cost shifting has come from. Because the councils have built up this fantastic service for the local community, for which there is a high degree of acceptance and need because of hospitals pushing people out earlier or a lesser availability of nursing homes or elderly persons homes, there is a higher demand for the service than has been recognised in the level of grants that are received. That is where the councils are picking it up.

Mr KING—If that is what has happened in your council, surely allowing that to continue is a failure of your administration?

Mr Costello—No, it is the political scene, isn't it?

Mr KING—Why? Did you make an appropriate application for an amended grant on the next round?

Mr Costello—We do that every year. What do we get? We ask for a 15 per cent increase and get three per cent, because that is what inflation is. The growth is not there.

Mr KING—Did you do that?

Mr Costello—The growth is not there. We apply every year. As I think Peter or Warwick said, we spend half our life filling out applications, but we do not know where they go. We do not see any results from them.

CHAIR—Before we go any further with this discussion, let us get some parameters on what has happened with HACC. On pages 28 and 29 of MAV's submission, MAV put a HACC case. Perhaps someone can help me with this. The Commonwealth matched funding in the last seven years went from \$119 million to \$167 million which, off the top of my head, is about a six per cent increase per year—which I know it has been for the last couple of years. Then there is the

state matched funding including local government contributions, then state unmatched funding. Then you have an imputed local government contribution, which went from \$6.6 million in 1997 to \$8.2 million in 2001. Then there is insurance and administrative funding. The local government contribution has gone up nearly 10 per cent, and the local government's share appears to be falling. Is that right? I am trying to work out exactly where the problem is.

Mr Edwards—One of the obvious problems is that the basis for the local government imputed contribution is cloudy at best and does not really reflect the full extent of local government's contribution. I understand that when HACC was first set up that basis was merely a mechanism to recognise the local government's contribution. You actually cost on Grants Commission returns—

Mr KING—It is just a rough estimate?

Mr Edwards—Originally, yes. Peter knows the history.

Mr Johnstone—I can tell you what happened. After I left the Commonwealth, I came down here and was heading the Department of Community Services at the time of the implementation of HACC. The state said: 'Local government is currently spending this much money on home and community care which will fit the new HACC parameters. That represents at least 20 per cent of the total pot we are looking for.' It was a Commonwealth-state agreement, not a Commonwealth-state-local government agreement. The state said, 'We'll make up our proportion of 60 per cent by putting in 40 per cent of our own and this imputed 20 per cent from local government.' Local government did not take the decision to enter into HACC. Its program management and program funding practices at the time were used to make up the state's contribution of 60 per cent for the provision of HACC services. Since then, local government has simply continued doing what it has always done. It did not have to go into those sorts of services in the first place, but it could see the crying need for them in the community. Since then, it has continued to increase its contribution.

The amount of HACC funding was never based on any analysis of needs across the country. The agreement was a very pragmatic approach to putting in what was considered to be a highly worthwhile new program, but no-one really knew what the real need was. The real need had to be seen in the context of aged care as a whole, because many of the people going into nursing homes then would have been a lot happier if they could have had appropriate support to stay in the community and live in their homes—as would a lot of people going into nursing homes now. That was the philosophy behind HACC. From our experience in dealing with communities, local governments would say very simply, 'HACC has never met the demand. We've strived to make up the difference. We have never made up the difference, but now we have got to the stage of recognising the financial gain and, as long as we put in extra, the Commonwealth and the state are not going to come to the party.' That is where the cost-shifting pressures come in.

CHAIR—Can we get it clear. Is the Commonwealth putting in an extra six per cent each year?

Mr Johnstone—I do not know what the figure is, but, yes—

CHAIR—That is what it looks like from those figures. What is the state doing?

Mr Johnstone—The state increased its contribution quite significantly after the last election. I do not know the figure.

Mr GRIFFIN—But the real question we should be looking at on the aged care issue is: what is the overall funding requirement and who is responsible for it?

Mr Johnstone—Precisely.

Mr GRIFFIN—I would argue that it has been a federal responsibility for a long time and, federally, we do not fund it properly, which then leads to pressures down the track. If you want to keep looking at the fact that the Commonwealth puts in six per cent while the state puts in 3.25 or 3½ per cent or whatever, then you are missing the point.

CHAIR—I do not think we want to debate the whole issue.

Mr GRIFFIN—No, but that is the point about the terms of reference. Basically, there is an inference in the terms of reference which makes it difficult to consider those issues—because the key item at the end of the terms of reference is ‘cost neutral’.

Mr Heine—One of the options for local government—and there are several of us looking at it—is for us to get out of HACC entirely and say, ‘State and Commonwealth, you do it. We will then go and target our funds at running a program that relates to our needs,’ because we are on a beating to nothing. Forget the funding side. The other side is that, in our community, because of the way in which the funds flow, the target audience that we are talking about is an increasingly tight group. The people who traditionally received home and community care in the Victorian context dropped out of the system years ago.

Originally, the system was built so that if, for example, mum broke a leg, went to hospital, came home and needed some help for a week until she could walk, the council assisted through the Home and Community Care program. We got sucked into aged care. Now we are being sucked into a funnel that is funnelling our dollars more and more into a narrower and narrower argument. It is a political issue. My council certainly discussed it. We have not yet had the political courage to say take a jump, but sooner or later someone will. It is a monte that a council will say, ‘Commonwealth, take it back.’ It will be big political jump in Victoria for someone to do it. We probably will not, but I am sure that sooner or later someone will.

Ms BURKE—But HACC is the absolute archetypical community expectation nowadays. All of you would feel bound to say that the community now has absolute recognition that councils in Victoria do this: ‘Oh, it’s that nice council lady who comes and helps mum with getting washed.’ It is that absolute notion that the shift in Victoria from rates, roads and rubbish to human services is someone now coming into your home for your aged mum.

Mr Foa—It is not just local councillors wanting to meet community needs that is driving the demand. Earlier, Gary said something along the lines of: ‘Hang on, no legislation is changed in HACC. How come that is a cost shift?’ I would argue that there has been some shift in standards in the agreements that we were meant to sign. Look at how HACC is now being targeted towards disabilities through deinstitutionalisation, for instance. We all agree with the policy objective of that, but the demand that created on HACC was huge. Consider Warwick’s point that it has now gone from being a proactive, preventive service—I believe those words have

been taken out of the current HACC guidelines—to far more of a service for the acute end. The difficulty for people on the ground is to trim back that proactive stuff that we have been doing, for which the councillors get a lot of kudos for doing in their communities. We have really had to trim back to such a level that the recent MAV survey, I think, indicated the average amount of home care assistance somebody can get is 1.5 hours a fortnight. That is the lower end of care—personal and respite care, it being the more acute end. We are robbing the proactive stuff for the treatment type care, and that has come out of the changes in the specifications and standards of the service. It is not a legislative change, but a tweaking of the specifications of the service.

Mr Johnstone—We want to make another point about local government. We know about home and community care needs in our communities, but local governments are not being listened to in that regard at present. We have dealt with the Commonwealth Treasurer on this matter and put the arguments to him, because he is one of our local members. We have certainly dealt extensively with the MAV and the state government on it. But our concern goes to the real needs in the community. This is where we get caught, because elected local governments are very concerned about the issues in their community. For the last several decades, elderly people have been going to nursing homes as the easiest option for them and their families. HACC changed that situation quite considerably for those fortunate enough to benefit from it. But there is not sufficient money in the system to provide for all of those people who want to stay in the home and community that they are familiar with. A lot of people are still going unnecessarily into nursing homes. I would not take any money out of nursing homes, but a natural consequence of putting more money into HACC would be to lower the demand on nursing home beds.

One of the things that I cannot understand about Commonwealth government policy in HACC is that an integrated approach to aged care says that you should be putting more money into HACC because it will lessen demand on the much more expensive nursing home beds. You talk about making things revenue neutral. This is not only revenue neutral, I would suggest it is a revenue positive approach at the end of the day. But, for some reason, there is an inability amongst policy makers to recognise that aged care must be seen as a whole and that it is not just a matter of growth. The Commonwealth has been pretty good with its growth factor on HACC—there are no two ways about that. But the point is that HACC was never funded on the basis of assessed needs. That has still not been done. We still do not know how many people would want HACC funding at home if, in fact, they could get it and avoid going into a nursing home. There are still too many people going into nursing homes and high levels of dependency who could stay at home.

CHAIR—Where is the community aged care factor?

Mr NAIRN—You are mixing up the community aged care packages with HACC. That is a very separate thing.

Mr Johnstone—Most definitely.

Mr NAIRN—But you are saying that more money should go into HACC because it will help the nursing homes. You have got to introduce the community aged care packages, which have increased even steeper than exponentially in the last five years.

Mr Johnstone—I am not arguing against the Commonwealth putting extra money into this. I am saying that, from an economic policy point of view, let alone a health and community policy point of view, the Commonwealth ought to be putting more money into it. Yes, I agree completely that the community aged care packages are very useful in that regard; but, frankly, I think they are a way in which the Commonwealth simply exercises more control over the spending. That amount of money has increased, but I am saying that it is still not based on an assessment of the actual level of need in the community—and that is the point. I am not arguing against those packages, but the Commonwealth has not done a fair dinkum job of assessing what the real need and the real demand is for home and community care in the community.

Ms BURKE—The other factor that Gary did take into account is that Victoria has the greatest need for nursing home beds. We are actually the most underfunded state. In my area alone, based on AMA figures—which were for their own political ends at the last election—we are 750 beds short. So these councils are picking up another element of federal government funding because we already have a crying shortage of nursing home beds. So what happens when we cannot get them into nursing homes and we cannot get a CAPs? We turn to the local government. Some local governments around this table have made the pragmatic choice of putting in additional funding above what they are being funded through both the state and federal governments to meet that demand. Peter's point may be that that is a silly thing to do or it is not a wise thing to do, but it goes back to meeting that community expectation. I can tell you that is one of the biggest gripes that any federal member in Victoria gets through their office.

Mr Johnstone—Far be it from me to defend the states, but the states also have the argument of bed blockers. Those people who cannot find nursing homes end up getting admitted to hospital for a broken hip or whatever because they have got nowhere else to go. So they become bed blockers in a yet more expensive system when we have got the cheapest system of the lot and the one that people want that is inadequately funded.

CHAIR—Option 8 of the discussion paper states:

Ensure that local government is a party to negotiations and a signatory to all SPP—

specific purpose payment—

agreements covering functional areas in which it has significant responsibilities, using the AusLink approach as a model.

But obviously that could include other things.

Mr Spokes—Picking up the CAPs example, I make the point that, even though the Commonwealth expenditure may have increased for those programs, there is no reason why it could not be rolled into the HACC program. Secondly, it confirms that increasingly those dollars are going to the acute end. If we had been implementing that program and if we had a national agenda for local government, as Warwick described before, that would be the mechanism by which you would work out, for instance, that our agenda for the next 20 years is to focus on the preventative end of aged care, or whatever the argument might be. You can apply exactly the same logic to the issue that you have just raised with option 8. I find it difficult to respond to the question about the specific purpose grants unless you said it in the context of having a mechanism to focus on the national agenda, because then you have got

some sense that, yes, we have all got a role to play; we know what the rules of the game are. I think the HACC example confirms what happens when you do not have that agenda.

CHAIR—You highlight a very good example of why we should have a national agenda in that area, and no doubt that can be related to other areas. I mentioned AusLink as another example of a national agenda that is looking at the overall transport needs rather than just looking at it—

Mr Spokes—There is a risk—and AusLink is probably an example of this, and it has also probably happened with HACC—where some of these discussions occur in the program area but not actually in the context of the whole-of-government approach that recognises local government as one of the delivery arms. People in the street experience local government as the front end of government, not the back end of government. So we need to be in there as part of that discussion.

CHAIR—Surely that is the whole point of the AusLink discussion paper.

Mr Spokes—Yes, it is, but it also needs to be in the context of it being one of the agenda items on the agenda for local government and the government generally rather than it being confined to the context of transport issues.

Mr Emonson—We are using HACC as an example. I think it is a very good example of the lack of clarity regarding local government's role. The setting of a broader national agenda should to some significant degree provide clarity around what is local government's role. I think much of the debate around HACC, the funding mechanisms and whether there is insufficient funding comes from this lack of clarity about whose responsibility it is. The starting point is the vision, which needs to cascade into a clearer picture about responsibilities and then talk about how it is going to be funded. But whilst we have three spheres of government assuming responsibility for the same service without much clarity, we are going to continue to evolve an argument around who is responsible and who is picking up the bill.

I think the broader vision is a significant void at the moment to inform debate around responsibilities and then carving up the total tax cake. At the end of the day the money is coming out of the same pocket. It might be going to different levels of government but the community is paying. We are all in the same game. We need greater clarity. That can only be achieved through a broader vision.

Ms BURKE—I have to admit I have not read the final draft of this paper, so I will apologise: I am not sure what option number it is because we changed slightly from when we started. I want to open up for discussion the notion of abolishing the state grants commission and having a direct relationship for your funding with the Commonwealth. Going back to the notion of accreditation, you are accredited, so the Commonwealth will give you the direct funding, taking out state grants commission so you have some idea about what you are getting and what your roles and responsibilities are. So we are not looking at accreditation as: 'You're a star' or 'You're a dog,' but 'We told you what we want you to do. We said this is the level to do it. If you meet that, we will give you the funding. You go away and do it. You take out the state grants commission.' This is going back to a lot of things we have discussed but, putting it in that sort of context, what would people's views or ideas be about that sort of model?

Councillor Chong—From a community point of view, we cannot just look at HACC in isolation from CACP. I am running HACC and CACP programs and I find that CACP is more effective and efficient. CACP clients have to be assessed by an ACAT team and there is a greater level of care for a certain number of hours—it could be from one hour to eight hours per week. At the same time, the carers that we provide in some ways have more accreditation. In that case you send the carers who could help the client do their shopping, attend medical appointments or who could cook for them. So I would say: do not just look at HACC. When you look at HACC, remember that CACP is more effective. So we have to look at both ways. I think the money spent on CACP is more effective. A lot of people do not have to go to nursing homes because of the CACP program.

CHAIR—Thank you for that. That certainly is what we wanted to know.

Ms Tod—There would be a concern about loss of flexibility if the HACC money was tied and the accreditation process was too stringent. HACC in the rural areas is viewed as the only alternative to the medical service. The communities value that service being provided by local government because it is not constrained by some of the guidelines and requirements of the state and federal government. The flexibility of the HACC funding is very valuable.

In some of the small rural communities the HACC program has been very successful. We have people living there who can no longer drive their cars and now we have a problem of lack of public transport. You mentioned local government being a grab bag. It is quite the reverse. If somebody goes and talks to their local politician about public transport, they start discussing issues such as, ‘No, it’s not viable,’ and all of these other issues. So where do they go? They go to local government.

Ms BURKE—And say, ‘Give us a community bus.’

Ms Tod—We have become very innovative about getting community cars and providing a pseudo form of public transport. You have to take community needs into consideration here. That is the reason why they would be reluctant to see it tied down too much and transferred from local government.

Mr Foa—Looking at the fragmentation of DVA, CAPs and HACC—and going back to David’s point—when somebody goes off HACC and onto CAPs is often an academic exercise, because the levels of service delivery under HACC are becoming more and more acute. I think you are almost referring to option 1b, Anna, when you are talking about transferring dollars directly to local government. If those dollars were aggregated from the DVA, HACC and CAPs types of services without the need for different program funding tags then I think, in agreement with Jennifer, we could become a lot more creative about the sorts of solutions we could get, because we have clients on the books who are getting all three.

Mr Edwards—If you look at it from Victoria’s point of view, programs like DVA and CAPs set up an inherent tension with the recurrent funding that the Commonwealth provides through the states for HACC. The greatest difficulty for us is that the recurrent service will be wound back because politicians at the Commonwealth level can clearly say—and quite rightly—‘We are going to deliver X number of CAPs packages.’ You can see the reasons why that will increase and at the same time you have a potential threat of what is going to happen to our recurrent funding levels paid through the states, and that is a danger as well.

Mr Heine—Focusing on the issue that Anna raised, at the moment we deliver a program for you that you get no accolades for. It is effectively local governments that are seen to deliver HACC; your contribution is set aside. If you were to look at a different way of distributing the funds and at some form of accreditation—whether on the innovation and development issue we raised earlier or something else—I think you could have the potential for a win-win for the Commonwealth and communities whereby the Commonwealth gets more direct involvement in making sure that the community understands that its GST and tax funds are being put into those services but local communities are also encouraged to look at innovative ways of delivering those services. That may well be a combination of a whole range of strategies.

At the moment we are constrained by the system that we have. For example, we do not put our community bus into our HACC equation at all. That is an entirely separate issue. Nor do we put in a whole lot of other support services like ethnic meals and the God knows how many ethnic Christmas parties and celebrations we have that are all part of the social capital issue of supporting those people. That is a whole other side of the services we provide. You are getting no credit for any of this but potentially you should. I think there is some argument about—and I think it would be good to focus on—how we look at the distribution of funds. We all have our various views on the state grants commissions and I am sure there will be some varying views around this table.

CHAIR—We might come to that wider issue later. Is there anything else people feel we have not covered on the HACC issue? We have got a range of views.

Mr KING—I think it was the representative from Knox council who spoke about the issue of overlapping. It strikes me that the problem we have in our federal system—which is not going to be solved by this inquiry and probably never; it is what our founding fathers gave us and we have to live with it—is this issue of overlapping leading to pressures and cost shifting. What is your solution on that question in relation to the specific example of HACC funding?

Mr Emonson—I think the solution is around a mechanism of clearly defining responsibilities. I do not think the responsibilities are particularly clear at the moment, and there is scope through that lack of clarity for duplication. There needs to be—not only in HACC—a greater understanding of who is responsible for what and, once that is clearly understood, a carving up of the total tax take to appropriately fund the whole range of services. I think the lack of clarity is, to some degree, what is causing cost shifting at the moment. Whilst I have different views about the composition, the principle in option 7 of a focus on determining responsibilities and funding is certainly a positive step towards achieving that. I am not sure that we are going to completely avoid overlap within a three-tiered system of government but a concerted focus on reducing duplication through clarity around roles and how funding will match those roles would be a significant step forward.

Mr KING—There have been a couple of good suggestions about mending option 7, and you seem to be taking them up in your response, but that is a very useful contribution.

Mr NAIRN—What this discussion also demonstrates, which we have to keep in mind, is that you really cannot have a formula for the whole of the nation. Clearly, here in Victoria, there has been an overlapping between the aged care aspect and the HACC aspect. Alan seemed to suggest that HACC is all about aged care. It is not. The services have had to increase. State government run hospitals get people out the door a lot faster than they used to, and therefore

looking after them is picked up at home rather than in hospital. All of those things have pressured it.

In New South Wales, in my area, for instance, the councils, while they are involved very much in HACC, have tried to stay well clear of community aged care packages. Most of the community aged care packages, which are working brilliantly throughout my region, are overwhelmingly provided by nursing homes. The nursing homes are looking after people in the nursing home, but at the same time they can use their staff incredibly efficiently to also look after a number of people out there in their own homes. I would hate to see those sorts of systems change. It is different here. I am just reinforcing the fact that any recommendation and any decisions have to understand those dramatic differences from state to state as well as within states.

Mr Costello—Taking a role here and taking up the New South Wales model might let the Victorian councils get out of some of the HACC stuff we are doing now without having a political backlash.

Ms Dale—Nillumbik is a part of what are called the interface councils. We are the councils that are classified metropolitan but at least 50 per cent of our land is rural conservation. Just in terms of looking at differences between states, Nillumbik council, Yarra Ranges and Mornington Peninsula all get the same funding for, for example, Meals on Wheels. Yet if you are at Boroondara, you would travel from Hawthorn to maybe Kew or Ashburton. We have to travel from Greensborough to Strathewen, which, for those of you who do not know, is about half an hour or 40 minutes, and on unmade roads as well. There are differences and inequities that the interface councils have to face as well. We are still classified metropolitan, and funding is exactly the same regardless of the fact that we have to travel 40 minutes to deliver a meal to an elderly person. I just want to make that point on behalf of our interface council colleagues.

Mr Johnstone—This goes to the heart of the difference. I want to follow up Graeme's point that, whilst there has been a lot of talk—and there always will be—about what the appropriate roles of each level of government are, there are some areas where you will never get one simple way of describing that. We can agree that states look after the police, the Commonwealth looks after foreign affairs and we look after waste and maternal and child health. That is a bad example, actually. We look after most of it, but we get some funding from the state. There will be areas where it is quite appropriate, I would argue, for local government to take the initiative, to be involved in front-line things and to be looking for support from state and federal governments. The nature of politics is such that governments at all levels will get involved in a range of other things despite the ones that can be clearly determined.

I would suggest that HACC is the classic example of that. Local governments in Victoria saw a need, met a need and have continued to meet that need, far in excess of the funding that was coming from what might be seen to be the appropriate level of government. The other side of it is that local governments in Victoria are now advocating for more funds into HACC in a very effective way, because they have a knowledge base and a community base that enables them to identify that real need. That is the quite proper involvement of local government, quite apart from service provision—to be saying, 'There is a need here in the community that has to be met, and we are prepared to meet our share of it.'

Mr KING—Mr Heine takes the exact opposite view. He wants local government out of HACC.

Mr Heine—I would say that is one option for us.

Mr KING—What is the answer?

Mr Johnstone—It is an option.

CHAIR—Maybe we could just move on.

Ms BURKE—We were in Tassie yesterday. They do water and sewerage. You lot do not want to get into water and sewerage. Victoria sold off its power stations. The local council here ran its own power supply. And there is the Northern Territory. You do not want to be talking about airstrips. That is one of the major focuses that the Northern Territory councils have to deal with—and Tassie yesterday.

Mr Johnstone—A rural local government might want to talk about airstrips.

Councillor Chong—I would like to come back to what other councils have said. From the official point of view, okay, councils have been told by the Commonwealth government to set an objective. State governments do police and health. From a council point of view, I think that is no good. Councils are supposed to solve problems in situ. We may be given an objective and not be able to comply with that objective. To some extent, the GST might help. In that case, if you have an objective, council will lose the innovation and also take up problems of their constituents.

Another thing I want to speak about concerns CACPs for ethnic communities. My experience is this. I found the council could not deliver effective CACP services to ethnic communities because the carers involved have a communication problem. It does not do the job. I had 20 packages before, and now it has gone up to 80. The beauty of that is that my carers can be trained to do some of the work of the council people, who do not have the ethnic staff to do their CACP job. In that case, they give me the CACPs and I provide the workers. I am saying that CACP is very effective for ethnic communities from that point of view. I believe that councils should not be told by the Commonwealth what to do. Otherwise we will be just an arm for delivering the service of the Commonwealth. We will lose our innovation and ability to solve problems at the coalface with our constituents.

CHAIR—I think we have had a fair innings on this one. One question I would like to ask is this. On the whole point of cost shifting, do you have some examples of where it has been addressed and the cost shifting has been reduced rather than increased? We have a long list of areas of cost shifting. Do we have examples where people have turned it around and said, 'There was a problem but we have now started to fix it?'

Ms Tod—We are certainly getting better at saying no.

CHAIR—Perhaps that is the answer.

Ms Tod—VicRoads have a strategy for road safety and would like the councils to put in road safety officers. That is their strategy. The proposal came through the other day to Glenelg. Because it is not consistent with our corporate plan and we certainly do not have the budget allocation for it, we have said no to it. Perhaps it is starting.

Mr Conran—I guess that is the point I made before. I think we are getting better at defending our position against cost shifting. We will not be able to stop it all, because of policy shifts, but I think we are getting better at it. Some councils, for example, do not want to raise HACC again, but I know our council delivers the level of service we are contracted to the government to deliver, and no more. Our council has taken that political decision to not continue to put extra service. We are saying, 'No, we are putting in enough now. That's what we'll provide.' Without thinking through where we will get the benefit, that is probably where Monash is going anyway—saying, 'We won't take on this service,' 'We won't take that grant' or 'We're not interested in that' if we can sense there will be cost shifting involved at a later date.

Mr Foa—We are doing that as an industry too. The fire services inquiry is probably the most recent example at a state level where there is a view about funding fire services through council rates and councils getting a small handling fee for the money that they would collect on behalf of fire services in the community. That is a state government one where just in the last week a response has been put in saying that it is a form of cost shifting, and no, thank you very much.

Mr SOMLYAY—I would like to raise something that we heard in Queensland but that I have not heard here in Victoria. In my own area, the Sunshine Coast, there is a very sad lack of police. The local government is picking up the gap by organising community policing. While it is not a direct form of cost shifting, the failure of the state government to provide those services is putting a cost on local government. Is that sort of thing happening in Victoria—with policing or in any other area?

Mr Costello—Not in policing. Public transport is probably one in the rural areas, as Jennifer mentioned before. We have seven community cars and we use volunteers to drive people around because there has been a contracting of services back into the regional centres and no compensating public transport system to get people into those medical services, for instance. We now run seven vehicles that volunteer drivers use to take people to medical appointments in Wodonga, Albury, Wangaratta, Melbourne or wherever it might be. Again, it is a state government issue really. The state subsidises public transport in other areas but not so much in the rural areas—not to the extent that it is required.

Mr Heine—There are other pressures. A number of councils have pressures from traders to put security guards in shopping areas. A number of councils are doing that through special rate schemes—trying to get the traders to pay for it. Other councils are doing it off their own bats. Increasingly, we are using our planning powers to require people to put in security cameras and security guards. At this stage, the cost shifting is really pushing it back into us in terms of community safety programs and other compliance issues. There is no direct pressure that I am aware of to go and put parapolice on the street. The state government—certainly prior to the last election—did have a debate about the role or the possible role of parapolice in the community, but that was more in terms of having unsworn officers working in police stations and dealing with non-police issues to put sworn officers onto the streets. For many of us, community safety is a booming business in terms of the dollars we are putting into it from a whole range of perspectives.

It goes back to the heart of a lot of the national agenda issues. Whether we like it or not, as a national community—and given the current circumstances it is probably going to escalate—we are becoming more concerned about personal security issues and we are becoming more concerned about general community safety. Again, people are looking to their local council to say, ‘We want to feel safe in the street, safe on public transport, safe in the shops and safe in our homes.’ We talk about social capital and community building. A lot of our emphasis is increasingly going back around to recovering neighbourhood concepts that have gone past in the 1960, 1970s and 1990s.

We need to go back and invest in recovering some of the issues of neighbourhood interaction and spirit. One of the big things for elderly people in our municipality, for example, is that many of them say, ‘We no longer know the person who lives next door,’ ‘When we go down to the local shops, there are strange signs on the shops and we can’t understand them,’ ‘I no longer feel safe, because my community has changed so much’ or ‘Please, council, do something about it.’ That is where the pressure is on us—in those types of areas of significant community change and the expectation that we will do something. Again, it is something that needs to be recognised more at a national level. You do have a national issue about personal safety and neighbourhood issues, and you need to look at the national agenda for social capital and community building.

CHAIR—You say it is national, but you have Neighbourhood Watch and similar things in the country. Isn’t it a question of saying that the police are withdrawing from where they used to be?

Mr Heine—Neighbourhood Watch is a great example. We are probably one of the few councils that actually invest in Neighbourhood Watch. It is a good example of a community based structure where you can get people involved in looking at local security issues. It is an issue where we can ask this: if the police have the resources, given all their other priorities, what will they put them into? Like a lot things that are happening in our community, for a variety of reasons, they are the types of programs that local governments have to go and make the decision about as to whether we provide support. Most of the councils here in one way or another would be supporting Neighbourhood Watch, whether it is through paper, printing or something else.

CHAIR—Isn’t this contradicting what David just spoke of with Monash? They say no, but you are saying yes, we need to replace the police.

Mr Heine—I guess it goes down to the reason why we are still in the HACC business. Our forward policy agenda is to support our ageing community. Our forward issue is to go and make sure we keep those people living in their communities and not having to go off to nursing homes and hospitals. We want to keep our communities vital. We want to have our older people feeling safe in the streets and safe in their own environments. All these things become an integrated whole. You cannot go and separate them all out. That is what I said before about not being able to simply go and put local government HACC funding into one basket. If you add all the other things we do around supporting older people actively in their community, and safely, then the dollars we put in are quite enormous. There is no recognition of that.

Ms BURKE—We can extend the argument out about personal security and look at all the drug programs that the councils around these tables are running—yours in particular. I am sorry

to draw that analogy, but there is a feeling, particularly in your neck of the woods, that personal safety and going to the shops are the in-your-face drug issue of downtown Springvale. Again, I am not sure how that relates to other states, but the majority of these councils are doing enormous things in respect of drug programs and again putting in money probably above and beyond what they are being funded to do by both state and federal governments. I know a lot of them are spending a lot of time filling in applications for various types of funding. It is one of those things where probably half of you have got somebody full time. I certainly know the person from Monash and Whitehorse who more or less works full time on various funding applications in respect of the drug issue. I have to admit I have not heard about the local government in other states and their involvement in drug issues.

Mr Heine—We have five people working exclusively in community safety and drugs, because of the scale of the problem that we have and the impact it has. Whether you are a retailer, a factory owner, a school or a church group, it is huge. It is the number one issue, on every bit of research that we have done. Our community comes back saying that what they want government to do is to help overcome this problem.

CHAIR—Does this fall into the category of cost shifting?

Mr Heine—It falls into the category of reality.

Mr Rowe—This stuff is not easily packaged as cost shifting. That is the difficulty some of us have with the whole inquiry headline ‘cost shifting’. Local governments pick up many of these things because they are part of their responsibilities—to pick them up on behalf of their communities. The issue of public safety is not always a response to the police role shrinking away and picking up the roles that you might expect of a police force. It is local governments actually responding to community safety issues, issues around drugs or a whole lot of other issues that local governments pick up because there are expectations and they are trying to work with their communities to create whole, tolerant and integrated communities. There is the argument that this is always about a cost shift—that somebody has walked away from it and it is someone else’s responsibility that we are picking up.

I am anxious that there seem to be some nuances here that we are doing a lot of stuff that we should simply pass back, that it is the police’s job. It is local government’s job to be involved in public safety. The issues are how we fund that and how we get support bases so we can deal with that. We should not simply say, ‘The police are shirking that; that is their problem.’ The roles are more complex and more integrated.

Let me give a recent example. It is something slightly different but it is an example of crossovers. We have just done a bit of research with local governments about education. Again, education is one where you can easily say, ‘That’s the state’s responsibility.’ At a higher level, the Commonwealth has interests as well. We looked at local governments across the state; 75 per cent of them said that education is a core activity. Who would have thought that 10 or 15 years ago? What did they mean by it being a core activity? They mean engaging with early childhood programs, neighbourhood houses, adult and further education projects, learning cities and learning towns projects.

Local government is engaging in a whole lot of territories. On one level, you could simplistically say, ‘That’s somebody else’s business. Don’t do it. Don’t go there. Aren’t you

taking on more than you should be taking on?’ But local governments are actually picking up learning towns projects and adult and further education projects because they are into community building and community capacity building, and they are also trying to add weight to Commonwealth and state programs about whole of life learning.

It is not always helpful to talk about cost shifts. That often puts us in the role of victim. It always puts us in the area where we are being robbed. In fact, local governments want to do lots of things for their communities, and they need the capacity to be able to move, to shift, to pick up things that occur and to respond in a meaningful way. It is not helpful when we start to defend the territory and say, ‘That’s the police’s business. We shouldn’t be going there’ when councils are actually involved in public safety. It leads to a problem I talked about earlier. With the refugee issue, and if we go to war, there will be particular communities who find that harder and complex. And there will be local governments that need to respond to their communities in different ways. It will be their business.

Mr SOMLYAY—The reason I raised leasing is that quite a few people around the table today have said that state and federal functions are clear, that they are able to be identified—immigration and policing. We have just proven that is not right.

Mr Johnstone—Andrew’s point, though, again goes to the heart of it—that we are not just about providing particular services. A lot of the thinking and the model that we work under at present assume that we have set revenue. When you have set revenue, you assume set services—at least in a situation where you do not want to take on any extras. Local government is government. It is community governance. All these issues in the community are constantly in our face. We look at those issues and we look at how we are going to fund them. That, essentially, is the argument for a share of a growth tax. You could argue that the rating system, being a property tax, is a growth tax, except that the state legislation we work under says we have to set the rate every year having regard to our expenditures. But if you just let the rate sit there at that rate in the dollar, as with income tax, as with land tax and as with stamp duty, it would grow with the economy, and it would grow with those community needs.

The reason we are caught is because we have a set rate base, which we have tremendous political pressure and legal requirements to keep at the one level. We have to go begging for extra money and looking for innovative ways of meeting those needs. Community safety is a classic; urban planning areas are absolutely essential, particularly in the context of the state’s very good initiative on Melbourne 2030 at present. I could go across the whole area. The things that local government has got involved in recently are fantastic for communities, and they are what communities want.

But that again goes to the heart of vertical fiscal equity. I do not think you can talk about cost shifting and the predicament that local government is in, with inadequate funding, without talking about a share of a growth tax, in the context of an appropriate share of funding for the three levels of government in this country given their responsibilities. That is vertical fiscal equity.

Mr Costello—Also, councils are getting more and more caught up in other things. Telecommunications is the one that really interests me. We are now taking up opportunities for Networking the Nation funding and providing IT and education centres. We are also getting involved in funding communication towers for phones, and all that sort of stuff. Twenty years

ago, councils were not involved in community telcos. We didn't have to go around putting up mobile phone towers because Telecom provided all phone systems. But out of it, the community has built up an expectation with new technology and new ways of doing things, and the response is not there from the federal government. We cannot use mobile phones across half our shire because of the type of shire it is, but there is an expectation that you should be able to use them. There are private advertisers out there trying to flog them to you every day of the week, so everyone has got one, but you drive down the Hume freeway and you have black spots. 'We can put a tower up there for you if the council meets half the cost.' There is an example of cost shifting. The community expectation is that they will have telecommunications. That is not being funded from other places, so the pressure is on the council to start getting involved in that sort of thing.

Mr Spokes—In regard to both that example and the example Andrew mentioned of community safety, because we are under such pressure to respond to those things locally, when you listen to the discussion it is clear that we have actually not been very good at articulating those issues and trying to get those issues onto some sort of national agenda. We just tend to get in there and listen to the discussion. Maybe one of the lessons for us as a sector is that we have to be much more assertive when we see those things and try to get them onto the agenda in a more organised way.

One other point lies at the heart of what Andrew was saying. I think it is something that is fundamentally different about local government as opposed to universities, hospitals and lots of other agencies that the federal government may fund, often through specific purpose grants. The specific purpose of local government is to be generic. Our responsibility is to respond to a whole range of things, and that is why we have that tension. We need autonomy in our capacity to spend funds, but we need to do it in a way that is part of an overall national agenda, which we have to accept the responsibility to shape.

Ms BURKE—On that basis, should we look at page 31, options 1e and 1f. What are people's views about those sorts of issues? Option 1e is 'Consider other horizontal equalisation formulas for local government, such as the SES formula used by DEST for funding the non-government school sector'. That is the postcode basis of needs analysis. The other one is 'deliver FAGs through the Road to Recovery model'. I throw those two open, for us to look at those broad based funding issues.

CHAIR—In the context of what Anna has raised—because I want to get onto the funding thing—people have been critical of one of the terms of reference which says that it should be revenue neutral to the Commonwealth—and I emphasise the last word, 'Commonwealth'. We had a comment yesterday—

Ms BURKE—Bad, David!

CHAIR—This is an open discussion. There was support yesterday for the idea that, if we are going to find additional funding, it should be at the expense of Commonwealth grants to the states? I am throwing it open.

Mr Costello—So long as it is not the local government.

Mr KING—That is just to stir the pond a little.

Mr Johnstone—I have already given an example of where it could be revenue neutral for the Commonwealth, in the sense that you suggest, and that is with HACC. I say very seriously that it is absolutely beyond my understanding that Commonwealth policy advisers have not recognised the need for a more integrated approach to aged care. There is a demand for the cheaper form of care. I think there is an interesting challenge here for the Commonwealth.

The Commonwealth has more access to growth revenue than does either of the other two levels of government in this country. You could argue that the Commonwealth is constantly—year in, year out—in a revenue growth situation. There is quite a serious argument that revenue neutrality is not a major concern for the government to the extent that it is for the states, and particularly to the extent that it is for local governments, where revenue is pegged. The Commonwealth, just by inflation, constantly increases its take through income tax without adjusting those rates in the dollar. There is a good argument in terms of revenue neutrality that the Commonwealth has an interest in fixing that vertical fiscal equity to ensure that local governments are able to respond to the needs of communities that are talked about here. It can be put seriously as an argument within the context of revenue neutrality.

CHAIR—We are working on this discipline of being revenue neutral. I do not think we can step over that line at this stage. Victoria is not going to have rate pegging, is it? I thought you said you were putting your rates up 15 per cent.

Mr Johnstone—I will explain it to you briefly. In Victoria for the last few years all local governments have felt tremendous pressure that they will have a bomb dropped on them by the state government if they go beyond a certain recommended amount in rates. My council was prepared to say that it needed to go further, was prepared to discuss it with its community, and said that this is what it was doing. And it did not get a bomb dropped on it. There is tremendous political pressure without rate pegging.

Mr Foa—In 1994 through to 1997, I think we had rate pegging and a 20 per cent rate reduction in the first year. So I think we are starting behind the eight ball. Many councils, including ours, also got a 2.5 infrastructure levy.

CHAIR—Was that part of the amalgamation?

Mr Foa—Yes.

Mr KING—I want to commend the comment which came from Mr Emonson and Mr Rowe. It seemed to be suggesting that there needs to be greater appreciation of the need for leadership by local government communities. I think mall security videos were mentioned, parapolicing and so on. If there was leadership from the local council and its senior staff, et cetera, you would be able to sell that to your community and at the same time collect the cost from those who benefit from it, such as the mall owners and lessees, et cetera. I do not know whether that is possible.

As a former mayor, I do not think we ever did that in my municipality, but it makes a lot of sense. I am trying to say that through leadership at local government level there are ways of responding responsibly to increased or new areas of community involvement, such as education, which was mentioned as well. I think you will find that other levels of government will support those responsible leadership responses. I want to ask a question of Mr Johnstone. You keep talking about vertical fiscal equity. I think you mean vertical fiscal inequity.

Mr Johnstone—Yes.

Mr KING—What do you actually mean by that?

Mr Johnstone—I mean achieving vertical fiscal equity. I agree with you; presently we have a situation of vertical fiscal inequity and imbalance.

Mr KING—You keep talking about the need for a growth tax.

Mr Johnstone—Yes.

Mr KING—What do you mean by that?

Mr Johnstone—Let me expand on rates as a growth tax. Property rates would be a growth tax if there was not a requirement in the legislation that the rate in the dollar be set on an annual basis, having regard to expenditure. Whereas, in the Commonwealth, for instance, the tax rate is set in legislation and stays that way unless the legislation is reopened, we actually have to set that rate as an action every year, and that rate is expected to drop as valuations go up because it is set with regard to the total revenue generated. The state does not do that with land tax, and the Commonwealth does not do that with any of its taxes that I can think of—there might be one or two.

In the case of rates, we would have a growth tax if the legislation were changed to say that the local government could change its rates if it needed to, and the rate stayed there. If that had happened last year, instead of a 15 per cent increase in total rate revenue in the city of Boroondara we would have had a 32 per cent increase because between valuations had gone up by 32 per cent. That is normal taxing process for the state and the Commonwealth. Local government, though, is effectively pegged via the legislation because it has to take that decision. As somebody said earlier, it is a very transparent form of taxing. In fact, I think many of us would argue that the Commonwealth and states ought to do the same with income tax: adjust the rate each year and make a deliberate decision that they are going to increase the total take. That is what local government has to do. But the reality is—and I think the paper points this out—that we would have access to a growth tax if the system were changed, simply via the rate in the dollar remaining what it is and growing with the economy.

My point about vertical fiscal equity is simply that there is currently a total take of tax raised by the three levels of government and there are total expenditures. But the total taxes, where they are gained by the different levels of government, do not adequately match the responsibilities of those levels of government. The responsibilities of local government are in excess of what local government is able to raise. The responsibilities of the Commonwealth government are less than the taxes they are able to raise. They get more money than they need; hence, you have specific purpose grants under section 96, and all those other FAGs and so on. FAGs are a redistribution.

Mr KING—You are not suggesting a reduction in the income tax rate with a view to increasing rates, are you?

Mr Johnstone—You can think about that. I was not suggesting it but, now that you mention it, I think it would educate the community to float that suggestion.

Mr NAIRN—We could recommend the suggestion Mr Johnstone is making. We would probably have no problem with recommending that but, unfortunately, the Commonwealth could not actually do anything about implementing it.

Mr Johnstone—Just to be quite clear: I did not recommend that rates be set in a dollar and left there. This is a roundtable; I am throwing ideas in.

Mr NAIRN—But, also, would that not work against some councils—particularly small councils in some areas, where there are dropping land values?

Mr Johnstone—Then they would have to raise the block; there is no doubt about it.

CHAIR—Then it may not be a growth tax. You may then see a plateau in land prices, too.

Mr Johnstone—Yes, but in that case you would have to take visible decisions to increase the rate in the dollar. That is tough politics.

Mr Sides—In terms of going forward from here, it seems to me that it depends a little bit on what the Commonwealth sees as its national objectives. There has been cost shifting. What is the impact of that, on a national level, that you are trying to fix? When I read your paper, the big issue to me was the shortfall in infrastructure funding. I go back to my analogy of the last kilometre of copper wire in national telecommunications. Supposedly, this is what Networking the Nation is about, but I do not think it has necessarily been that successful. That is our role in the infrastructure. That, to me, is the key thing to be addressed. If we do not do that, it affects our national capacity as a producer and exporter. All these other things come from that. It seems to me that that is the one universal role across all local councils in Australia. The key infrastructure is a common function. So if we are going to move forward it seems to me that maybe you are talking FAGs and direct dealing; that is the area where perhaps the Commonwealth can come to it.

Regarding a lot of these other things we are talking about, they are different in different states and communities, and that is perhaps where more specific purpose grants, some sort of accreditation systems or whatever come in. There may be a million ways to do it. The reality is that they are administered by umpteen government departments in Canberra as well. You do not speak as a united voice either. There are so many different agencies with close to overlapping things.

To me, the key thing to address out of this is the infrastructure requirement, and it is not as big a problem as we think either. We have said it here: it is 30 per cent of rates. I think it says here that local government is four per cent of public sector revenue. Fifty per cent of our revenue is rates, so, by my reckoning, that is 15 per cent of four per cent, which is 0.6 per cent of total public revenue. That is the amount of the shift that we have to get right if we are going to address the key question of infrastructure, which affects national capacity. That can be done perhaps on a general FAGs or Roads to Recovery or whatever. The other things we are talking about can perhaps be addressed to the more specific programs.

CHAIR—Can I go back a step from so that we do not see the same mistake occur again. How has it got so bad? What do you see as the problem? Why has the problem arisen on infrastructure? This is so we can ensure that we do not say, ‘We’ll fix it up with an injection of

money for the next five years, with another Roads to Recovery or whatever,' and then see it all slip back again.

Mr Sides—I think in Victoria and some other states the problem has been very well studied. I know it has been studied in South Australia and Victoria. For every council in Victoria and South Australia there has been a state study done which identifies the shortfall by infrastructure class in each council. I was an economist originally so I am not totally carried away with it, but it does have some validity.

We have depreciation well documented on most local government books—I know David and I have. As a rough starting point it is probably not a bad way to identify the shortfalls and where they are. These things can be performance based. You can look at what people did at the end of the year in terms of outcomes with the dollars and see if the problem is eroding. If a council still has a problem with infrastructure in three years time, there is clearly something wrong with it, or maybe the depreciation is capped. It seems to me that, of all the backlogs and problems to be dealt with, it is the most measurable and probably the most studied. That is the one that I personally would like to see—

CHAIR—Yes, but I am asking whether you can throw in why you think the problem has actually arisen. We all know there is a problem.

Mr Sides—I think you have identified some of the reasons. One is the inelasticity—due to politics, in part—of our rate base. We have picked that up by user charges. I think our actual aggregate contribution effort has grown quite well. There are also a couple of practical problems. There is the pressure on us to spend money on things that are not infrastructure and say, 'Infrastructure will last another year, so let's do something else.' That is the political decision—not made by people around this table necessarily, but it is the reality of the way budgets are framed—

CHAIR—I want to draw this out because I do not want to see it all happen again.

Mr Johnstone—It is simply a matter of inadequate accounting systems and, one could also say, poor management. This is not just the public sector. But it is certainly not just local government; it is also state and federal government. Over the years, whenever you are short of funds, you stop spending on the things that do not have an immediate impact. A couple of months ago, when we were increasing our rates for this very reason, I talked to the head of a major international company in Australia. He said exactly the same thing happens in his company—that when managers are put under the gun to reduce their costs overall, they continue doing the things that will have an immediate impact and cut back on their asset maintenance type funding. The trouble is that the accounting systems have not been good enough to show up the needs in that area. The accounting systems in Victorian local government are now getting a heck of a lot better, and they have to get better in order to avoid what you suggest. Otherwise it will happen again.

Ms BURKE—If you look at an example, say, in Monash, there is Roads to Recovery money because roads are an issue; the problem we have is with drains. People do not look at or think about drains. If you say to the local community in downtown Oakleigh, 'We're spending all of your rate money on drains,' they go ballistic because they have not seen the nice art gallery that

we have down in Glen Waverley. So it is also a bit about in-your-face perception, about what you see your money going to, isn't it?

Mr Conran—Going back a step, I think there is a variable problem across Australia regarding infrastructure. I want to put it on the record that we do not perceive that we have a problem with funding our infrastructure in our city. We think we have our financial plans in place and we know that, as the infrastructure ages, we will have to plan to put more money into that. We will have to increase the rates to cover that. It will not be in the big lump but gradually—the Dandenong issue of increasing rates gradually over time to cover that. At the moment we are a city that has relatively new infrastructure, but I see that as a really different problem to the rest of Australia.

In the paper here, it identifies that local government seems to be spending \$1 billion year less than it should. On what I am not sure, but I am assuming that is mainly infrastructure. If that is the case, and taking the other numbers in the paper, we need to increase total local government revenue across Australia by six per cent. If it all has to come from rates, it is a 15 per cent increase. We seem to be saying all the time that funding is needed and it is all going to come from Commonwealth or from state governments. Local government has got to really address the issue of what it can raise, and the point Peter raised is very valid. If we are given the unfettered right to raise rates—if other levels of government suggest that sometimes it is really good for local government to raise rates, that it is good financial planning and it is good for the community to raise rates—it might help the situation. But we do not get that. We get the belting of the council publicly from whoever has got an interest in it, whoever says, 'Gee, the rates have gone up by 10 per cent or 15 per cent.'

The municipality I live in has put the rates up by over 25 per cent over the last two years. I have not seen the backlash. The councillors are up for election this year; I will be interested to see how they go. But my understanding of the problem is that not every council is going to have the capacity to do that. I see it as a real mix of solutions as to where you go from here. That is why I am not interested in looking back. I am looking at how you do that. How do you fund the infrastructure properly? We want to put more effort into community safety; we do want to put more effort into better community transport. We are getting ourselves involved in some of those areas, but we are prepared to raise the revenue.

Mr Heine—It is also where things like AusLink and Roads to Recovery become very important. Because there has to be a national recognition that changes in road transport technology and changes in pressures on urban areas or on rural areas have an impact, you could argue that local ratepayers should not have to fund them through rate increases. Putting another thousand B-doubles on roads in our city is an issue that we never designed them for. They are issues where you need your AusLink and your Roads to Recovery programs, because they are other cost-shifting issues on our infrastructure.

Ms Dale—You asked, 'Why has this happened?' One factor has got to be that when amalgamations occurred we had a 20 per cent rate cut. Even though amalgamations might still be, as someone said, a good outcome, that is 20 per cent. I think councils with even smaller capacities have been trying to catch up, because that is a huge decrease. In the Victorian context, that has got to be said. Secondly, David said that Monash could fund their structure. At Nillumbik we certainly have a lot of difficulty with that; it is critical that the Roads to Recovery program continues for our future viability. Thirdly, we have the distinction of being the highest

rating residential council in Victoria, something that always hits the press—usually once a year. This is despite the fact that, since Nillumbik has been Nillumbik, all of our increases have been below CPI. Ours is a structural rate issue; we will probably always have that number one spot because of how our structure was drawn up back in 1995. We have had minimal rate increases because of that—less than three per cent on average per year. You mention in here that rates are very political and can be a very sensitive issue; in our council it certainly is, and that was demonstrated at the last election. We now have eight new councillors out of nine. It is not always easy.

CHAIR—Is that putting rates up or down?

Ms Dale—I think our rate increase was still three per cent below the state average.

Mr Johnstone—Rates were an issue with us.

Ms Dale—Rates are an issue because we have always been the highest residential rating council in Victoria since day one. I admire Boroondara, who can put up their rates 15 per cent and justify it. It does not matter what we do; we will never be able to address that issue. It is not always as simple as saying, 'Just whack your rates up,' because we cannot do that.

CHAIR—You talk about the 20 per cent rate cut when amalgamation occurred. What savings in efficiency can people roughly identify from the amalgamations? It was not all downside, was it?

Mr Foa—That is one of the lessons to be learnt for the recommendations about further rationalisations. I am not sure whether anyone around this table would be advocating that. But if you are looking at other states—

CHAIR—Some states will do it, no doubt.

Mr Foa—Yes. The lessons to be learnt by that are just that: decision making between the short and long terms. There is no doubt—and I agree with Peter—that at amalgamation times some short-term decisions were taken in terms of savings. Yes, there are fewer people to be employed.

Mr Heine—There were efficiencies made. The issue from the perspective of a participant is that, in retrospect, instead of that 20 per cent being delivered back as dollars in the pocket to the ratepayer, it could have been put into infrastructure which would have made a significant difference to the position of cities today. That is the issue. It was given back to the ratepayer as a reward, if you like, rather than saying to them, 'You are going to get a 20 per cent rate increase.' Yes, there were efficiencies and, personally, I would argue that many of those efficiencies were long overdue and were good reforms.

Mr Rowe—I am told that the 20 per cent was a rate cap; that is the other element to this.

CHAIR—You are saying that there is a 20 per cent cap. But what was the value of the efficiencies? Was that half or 20 per cent?

Mr Heine—I think it varied across the state. In our case, it was pretty close to the 20 per cent.

Mr Johnstone—It has to be recognised that it was an arbitrary figure that applied to every local government, no matter how efficiently they were run. Some local governments would have been cut to the bone and yet they still assumed there was 20 per cent in amalgamations. Others had fat. The council I had at the time was able to sell electricity authorities and got \$50 million in cash. That made a tremendous amount of difference to our viability.

Mr Costello—That could have paid for some redundancies too.

Mr Johnstone—And there were some irresponsible decisions taken.

Ms BURKE—All of you would have noticed that we have another survey for you to fill in, and I know that you would all be excited by that. In relation to an earlier question about funding options, I would like to get some discussion around the table at this point about options 1e and 1f. Both options look at the issues that I referred to earlier—getting rid of the states grants commissions and having your funding relationship direct with the Commonwealth. Do not take my questions to mean that I have any preference. Obviously you have all worked out that I belong to the opposition, the ALP, so we as a committee would have some varying degrees of opinion about these issues.

CHAIR—We are aiming for a unanimous report, I might add.

Ms BURKE—Yes. But, as you pointed out, there are some political realities that we all live with as well. To be fair to the councils who have put a hell of a lot of time and energy into this, we need to come back with a report that looks at these things intelligently and, as you have been saying, beyond the scope of just the cost shifting. If there is an issue of cost shifting, how do we address that structurally through funding changes? Is that going to be one issue that we should look at in relation to these options?

Mr Heine—Was there some reason why 1e was missed out of the questionnaire?

Mr NAIRN—Certainly no-one has commented on that SES model.

Mr Heine—It has got a, b, c, d, f.

Ms BURKE—It was probably just a typo. We will put it back in.

Mr Johnstone—Can I make a comment on the principle, as I have not seen your questionnaire.

Mr Heine—It came in late yesterday.

Mr Johnstone—I am not sure whether it is dealt with in the paper, but the principle of city area comes into this. I would have thought that where you actually take the decisions would underline the whole issue of the three levels of government. That is, decisions should be taken as close as appropriately possible to the people who are actually affected by those decisions. I

do not understand the SES formulas, but I will just take your general proposition, if I may, about delivering grants through the Commonwealth Grants Commission rather than state grants commissions.

My immediate position would be to say that I would be very worried that there was less understanding at the Commonwealth level of the needs across the country as a whole. I think it is appropriate for the Commonwealth level to take the decision about what goes to individual states, but within the states I can say that, for one, I am not frightened of state governments. I think they have a very real role to play. They should be accountable for those decisions. They are closer to the situation in their states and they should be addressing the issues of horizontal equity within their own states.

The other suggestion of FAGs being delivered as tied grants horrifies me if they are going to be tied to specific purposes. That goes back to the contractual agency arrangement, and that is not what local government is about. Local government is about having the discretion to do what its community wants. That is why we elect our own people. Otherwise you could abolish local government and let the Commonwealth take all those decisions and just hire some agencies to deliver the services.

CHAIR—I just want to make a couple of points.

Mr Sides—You do not have to enter into the contract.

CHAIR—I will make a couple of points. First of all, these are options, and that is why I want to provoke people like you into coming up with a response.

Mr Johnstone—Just giving a point of view.

CHAIR—Just to elaborate a little bit on the SES formula, it is called the socioeconomic status formula.

Mr Johnstone—Right. So it is horizontal?

CHAIR—It is based on postcode assessments of the income of that particular area. It is accepted as probably one of the better measures around to try and measure capacity to pay, if you like, or need for additional support. Nothing is ever perfect, but this is one of the better ones.

Ms BURKE—It is the model used for private school funding.

CHAIR—It has been adopted in terms of funding non-government schools because it is seen to be the most equitable method. That is notwithstanding the fact that having done it has caused some political controversy, particular for some of the schools. As they pointed out in Hobart yesterday, it has not been a problem in Tasmania.

Ms BURKE—They do not have a category 1 school.

Mr Johnstone—My colleague here has just pointed out to me that on that Boroondara is a plus 32 and Greater Dandenong is a minus 44. I am not going to let that affect my comments at all.

Ms BURKE—I was wondering when someone would pick up that. If anybody has the Greater Dandenong's, it is the ABS socioeconomic disadvantage.

Mr Johnstone—I am a bit suspicious of all these formulas. I have had a look at the state formula, and I have to say you have to be a mathematician to understand it. But mathematicians usually are not sociologists, and you need a sociologist to devise a proper formula. I think we are stuck with that sort of thing to some extent. I do not think any of us should have any problem at all with the principle of horizontal financial equity and actually trying to correct those imbalances that exist.

I keep coming back to the issue that I am worried that there is too much emphasis in the discussion paper, and in the discussion around this inquiry, on horizontal financial equity. When we are talking about cost shifting, we are talking about vertical financial equity and we are talking about facing up to that fact. The Commonwealth has all the money and a certain level of responsibility; local government has the least of the money with a lot of responsibilities. There is an imbalance between revenue at the different levels of government and necessary expenditure.

Having said that, given that there are so many local governments—and, indeed, states—with different requirements, the horizontal issues, the social issues, have to be addressed as well so that disadvantage is to some extent met. It will never be met perfectly, I would agree completely. But there is another issue here, and that is about the vertical approach. If you adopt a pure horizontal approach to grants from the Commonwealth, all you will be doing is addressing disadvantage; you will not be addressing the fact that local governments generally have insufficient funds to meet their considerable responsibilities.

CHAIR—I did throw in for discussion a while ago one option that addressed that. I asked what the reaction would be if there was additional funding to local government that was currently going to states—while it may be neutral from the Commonwealth's perspective.

Mr Johnstone—It certainly would not bother local governments.

Mr Edwards—It does not deal with the overall question of growing the amount of funds.

Mr Johnstone—I would suggest it is a bit selfish of the Commonwealth.

CHAIR—It may do. Why not? I want to try and get some discussion on this. I am not trying to give you a prescription.

Mr Johnstone—I have to give you an honest answer and say I know the terms of reference talk about revenue neutrality but I think—

CHAIR—To the Commonwealth.

Mr Johnstone—I think that is unreal politically. If you are in fact going to address vertical financial equity, you have to address all three levels of government; if you talk about taking from the states and giving to local government, politically it will fail.

Ms BURKE—If we go back and look at this SES formula and Greater Dandenong, I wanted to get to that. Coming from metropolitan Melbourne, I am—no disrespect—getting sick of regional councils telling me how my people are so much better off and we should be funding them continually. That is a personal gripe, I will be honest. There is probably some validity in it. But we have not heard—

Mr NAIRN—You should have a word with Ross Cameron, Anna.

Ms BURKE—In some respects, a lot of the Commonwealth programs have been about regions. They have not looked at what a region is, or whether my Monash council and my Whitehorse council constitute regions. If you look at this SES, you see some phenomenal differences. Port Phillip is up 101; Monash is down 10; Casey is down 28; Greater Dandenong—you do the best out of this—is down 44; Nillumbik is only down 2; Moonee Valley is up 14, which I am surprised by; and Melbourne is up 99. If we actually went to a model like that of SES, it is quite fascinating to look at where it would all go.

Mr Heine—That is just reflecting changes over a five-year period between censuses.

Ms BURKE—Yes.

Mr Heine—I guess the dynamics of these types of models are that in reality they are changing. I go back to Peter's issue about rates and property values. Interestingly, some of these issues are also reflected in property values. There is a strong argument for Peter's particular model that allies to some of this. It is just one methodology of trying to define—

Mr Johnstone—Stop calling it my model.

Ms BURKE—But is that the methodology to go to? I suppose that is what I am trying to get to.

Mr NAIRN—The purity or otherwise of the formulas used to distribute the FAGs is only one form of horizontal equalisation that goes on in Australia. Every program the government runs is directed to priority areas. You just do not do a program where you do not say what you want to target. Recently, it has been regional and rural Australia that has been targeted. A number of specific purpose programs are being run, which are targeted to other areas. Metropolitan councils did not get a lot out of Networking the Nation. It is those sorts of issues. So the purity of how you redistribute the FAGs, while it is important, is not the only form of government horizontal equalisation.

CHAIR—I think that is a fair comment. We are just throwing up ideas. I will just correct one point that I should have made clearer before. When I talked about neutrality, I was talking about budget neutrality, which does not preclude redirection if savings can be made somewhere else.

Mr Sides—I would suggest—and you probably would not agree—that, in order to preclude, allowing for the growth in revenue that occurs to the Commonwealth from one budget to the next—

CHAIR—It does not.

Mr Sides—So the Commonwealth could, as it gets more revenue in through growth, actually redirect that and change the proportion of its allocation.

Mr NAIRN—That is possible under these terms of reference. We are not rejecting that.

Mr Spokes—There is one specific suggestion there, picking up David's point: there is not a lot of value in looking at what has happened in the past, because we cannot change it. But I think there are a number of areas where programs already have a sunset clause that might be four or five years out, and we can start to target some of those areas. I am particularly thinking of the windfall on GST that has been promised to the states. Some states are getting some benefit out of that, and Victoria has yet to receive that.

Mr NAIRN—That was not promised; it was delivered.

Mr Spokes—There may be some capacity, given that that has not yet been delivered, to put some sort of cap on that, hang onto a portion of it and gradually increase it back to local governments. I think that is an area that keeps coming to mind.

CHAIR—These are all options. We are trying to get a feel for them.

Mr Conran—I think Roads to Recovery was one of the best examples I have seen in the last few years of targeting a specific issue. It is letting us get on top of our infrastructure issues. It is identifiable and it actually delivers the program. I do not know what it was like for the country people, but I would have thought that it must have been a fairly popular program. I can see the need for those sorts of programs to continue. I am still bewildered about how the government intends to implement its environment policies and how that is going to work, especially in metropolitan Melbourne. We are trying to come to grips with that, but we are unsure how to go about that. I think it would be good for the Commonwealth or the state—whoever is responsible for implementing the initiatives—to give some concentration to identifying what we are trying to fix and working out the best funding mechanism to fix it, instead of determining whether the distribution formula is right.

Mr Foa—I think it is good that the paper recognises that local government played quite a large role across the country, I understand, in delivering quite a number of those Natural Heritage Trust funding programs. This is picking up on what David said from the environmental point of view. I think a number of the options are structured around the principle of giving local governments more autonomy with the dollars that come through to them. I do not think anybody would disagree with that sort of principle. Roads to Recovery gave that sort of local autonomy. We could identify the needs. We did a lot of work on the front end—submissions, et cetera. I would be more than happy with the principle. The next debate will probably be in terms of what the mechanism is.

Mr Conran—One of the things about the financial assistance grants from the government, or any government grants to our council, is the certainty of the level of it. It is fairly important that there is some surety over a length of time. For example, we got \$600,000 a year in Roads to Recovery. In the same year we lost \$600,000 in our local roads grant. At least we stayed even. To find out in May that you are going to lose 600 grand of your local road money might not seem much in the scheme of things, but in an \$80 million budget you are really only talking marginal stuff. A. The majority of that is service delivery. And \$600,000 out of our roads budget would have been pretty disastrous for us. Luckily, we have the Roads to Recovery program, so we have managed to tread even. But it is that sort of movement in funding that we have to try and address. There has to be some certainty into the future.

Mr KING—Couldn't that be done through this national council, option 7?

Mr Conran—The principle of that I have no difficulty with. The mechanics of it I am having trouble working my way through.

Mr Emonson—I would see two aspects to that: A degree of certainty around funding is certainly important, and probably more important for some of the rural and regional councils than it is even for metropolitan councils. But you will only achieve that through a consistent, untied system of funding. If you move towards total, tied, outcome focused funding, that is really going to be at the whim of, at most, a three-year program. The reality of the world is that, if we are going to have a balance of targeted funding to achieve federal objective outcomes, we need tied funding but we also need a balance of untied funding which delivers the public good and the social outcome objectives as well as providing some consistency. I do not think there is a one-size-fits-all approach. There is going to be a combination.

Mr KING—Would you suggest a balance?

Mr Emonson—I think that balance will shift with the federals' objectives. If it establishes a vision for where it sees the future for Australia, and where local government fits, the degree to which that influences local government will vary depending on what those outcome objectives are and what our role in that is. So the tied grants funding systems will vary, but there needs to be an equalisation system which has a sense of consistency around it and which delivers a whole range of guaranteed level public good.

Mr NAIRN—Can I clarify the comment David just made? Is the loss of \$600,000 out of their local roads out of the FAGs local roads?

Mr Conran—Yes.

Mr NAIRN—Because of adjustments from the previous year—

Mr Conran—A change in formula—

Mr NAIRN—Oh—a state formula.

Mr Conran—That may have been the right decision nationally—don't get me wrong. It might be better that it went to a rural and regional council. Someone else has got it, and that was smooth, but it is still a big slab out of a budget.

Mr KING—That is the kind of cost shifting we are concerned with, isn't it, Chairman?

Mr Heine—That is not cost shifting.

CHAIR—No; that is redistribution.

Mr KING—Did you say that it was taken away by the state and you got it back from the Commonwealth?

Mr Conran—No; it was shifted to another council, or other councils.

Ms Tod—My concern about options 1e and 1f is that they are a solution to the problem; they are not the cause of the problem. If you take the forest industry and the blue gum industry, I can see the problem happening again to a certain extent, because somebody has made a decision that forestry is farming. When it comes to raising the money to fund the roads that that industry is going to damage, now there is not a strategic solution to the problem; they simply shift their chipper around, progressively damage the roads and go wherever they like. If a council tries to overcome that problem through increasing its own rates, it picks up all the farmers, whom it does not really want to pick up. The opportunity to charge a development fee is not there in this particular case. More importantly, we need to look at the cause of the problem. Who decided they were farmers, in the first place?

CHAIR—That is a very good point. This blue gum industry has moved into the higher rainfall areas.

Mr KING—What is the blue gum industry?

CHAIR—It is a new form of farming. It is harvested for chips for pulp. The point is that it has moved into new areas.

Mr Costello—Stock grazing under timber.

CHAIR—The roads were never built in anticipation of truckloads of chips. But it is more than just that. In west Victoria you are seeing a change in cropping. I know because there is another council which is being confronted with a problem—someone has put in a grain delivery terminal on local roads, and it is a nightmare.

Mr NAIRN—But this refers to planning issues—

CHAIR—It does.

Mr NAIRN—and what sort of flexibility councils have with respect to their planning laws, which is determined by state legislation. I think in all of the states that we have been to, this whole planning area is a marked area of cost shift. For instance, you can only charge certain fees for applications, which are determined by the state, but at the same time the state introduces legislation which requires you to spend 10 times that fee in determining an application. This is a very identifiable area of absolute cost shift that has occurred over the last couple of decades. I speak from many years of experience of fighting the councils and governments on it.

Mr GRIFFIN—But also sometimes there are situations which result from federal government policy. For example, in the food regulatory area there is a food regulatory program basically driven by the national government, in consultation with the states, which then produces issues for local government in terms of implementation. It is not just a state issue.

CHAIR—It is a combined state and federal issue. It is a ministerial council that makes those decisions. Ms Tod, what are the solutions you are putting forward on this?

Ms Tod—I quite liked Mr Somlyay's suggestions about giving some consideration to the impact of state and federal decisions on local government and looking at the implementation of the legislation and how the implementation is going to be funded. Let us start at that point—not try and fix up the problem at the end.

CHAIR—That is a good point.

Mr Edwards—I would like to make a couple of points from the MAV submission. Our view is that the current financial assistance grants process provides flexibility for the states to deal with their own priorities, recognising that the sectors are different nationally. The underlying issue is the dollars in the system. No-one can really define what criteria Whitlam used when he said, 'This will be the size of the pool, and it will grow by CPI forever and a day.' That is a fundamental issue. The other issue is a parochial one for Victoria. If we move away from the current system to a national system without knowing the details, are we at risk of being penalised for the efficiency gains we have had? How will we stand with the reforms? Would it be better to revert to 210 councils to ensure that we get our money? Until we saw some of those details the Victorian sector would have concerns.

CHAIR—We have to make the recommendations; that is why we want your input.

Mr Edwards—Does that mean that national distribution would retain Victoria's per capita share and then apply the national criteria or will we move away from any per capita share to open slather or a share of GST receipts? There are those types of issues. How will they impact on the states' driving reforms to their own sectors? They would be concerns for us.

Mr Costello—There are two points I would like to make about the FAGs. Firstly, I have not seen anything in recent times to say that the current method of distribution in Victoria—and I have not really studied the Australian model—is wrong. If it is not wrong, why change it? Secondly, I again take up Alex's point. If you want to change it, show me the effect it is going to have before I agree with it.

Mr Johnstone—I would re-emphasise that I do not see it as an argument for centralising the distribution of FAGs. Regardless of the system, it seems to me that there is a basic argument that it should be done at the state level; then we might have our arguments with the state as to how they do it. But I find the notion of centralising it in Canberra for the whole of Australia very worrying.

Mr Heine—I agree with Peter: if you look to centralise it, you will have bigger problems.

CHAIR—We raise a question in the discussion paper: should capacity building be approached on a national basis? If so, what are the priorities that we should be taking up? I note your point about looking at policy priorities and so on. Do you have any comment on that?

Mr Costello—When I read that, I asked myself: what do you mean in this context by ‘capacity building’? It means so many different things to different people. In our community, ‘capacity building’ is looking at what our community wants and analysing what the priorities are for our community to go forward. I was trying to read that into here, taking it in that context, and saying, ‘What are you getting at in this paper?’ and I could not understand it.

CHAIR—You have put that forward from the perspective as you see it, and that is what we want to hear.

Mr Costello—We see that the expectations of our community are growing all the time, and it is just natural growth that is causing it.

CHAIR—We talk about the regions as well.

Mr Costello—Yes. We are involved in a lot of regional projects because we are trying to grow the region. We are probably one of the few regions in rural Victoria—‘provincial Victoria’ as we now call it—that have a positive population growth. There are a lot of things happening—well, until the fires recently, there were a lot of things happening—and we are trying to push that. We have a very positive outlook with the communities in general. The rate of the dollar keeps dropping, but we do have natural rate growth. We have a five-year plan of a five per cent increase plus inflation. We are into the third year of that now, and it is working quite well. It has been very well accepted. So, with the extra dollars we are generating, we are bridging the infrastructure gap and doing the new things that we need to do. That is giving us more and more capacity to continue that economic growth. It has a multiplier effect: one thing spins off the other. So we are very positive about continuing growth in the region.

CHAIR—Does that mean you feel you have it covered already?

Mr Costello—The more resources we have, the more we can do. We have the great Hume corridor running through there that has enormous capacity. My favourite is the Very Fast Train and things like that, but they are decisions that are out of our hands. But there are other things that link locally to those major strategy decisions, and we are working very hard to try and get our local community ready to accept the bigger strategies that are coming through from the federal and state governments. For example, freight centres in Wodonga are the go at the moment. Hopefully, that will get off the ground in the next couple of months. We are geared up with our local planning schemes and local businesses to feed into that, and that will be an enormous initiative for the area.

Mr Johnstone—I have a concern about the statement on page 26 under the heading ‘Capacity building and accreditation’ which reads:

...local government seeks to strengthen its position in the Australian system. Implicit in such a move would be an understanding that it has the necessary skills and resources to play an enhanced role and to engage effectively with other governments.

To me, that statement contains a certain degree of patronising towards local government. There is no doubt there is a need for capacity building at every level of government and in every area. I have no difficulty with building capacity—we all have to build it. What concerns me is if that is put, as it usually is, with the people who are controlling the programs. If a condition of the program grants and their receipt means meeting the needs of the granting level of government then in practice it becomes, as we were discussing earlier, a very bureaucratic process. Essentially, bureaucrats put in place all sorts of checklists and so on.

As I said earlier, having made that comment, the final suggestion that seems to come out of that section appears to be quite a good one. My understanding of the notion—and I only know of it; I do not know sufficient of the detail—of the UK Improvement and Development Agency in practice is that it has a very different role to that of the Audit Commission in the UK. The Audit Commission tends to run the performance indicators, the league tables, the stars and dogs approach and so on, whereas this is much more an improvement generation agency. I notice here that it has involved both local and central government.

I suggest that there are real positives in that, as long as it is separated from the actual granting and conditions of the grants. I further suggest—though it is probably outside your terms of reference—that such a body could be a public sector improvement and development agency from which we could all benefit. I say that very seriously. I see a lot of excellent skills in local government, but they do vary tremendously within and across local governments, and the same thing applies to both state and federal governments.

CHAIR—I think that is implied in the capacity building, anyway.

Mr Sides—One option we have not talked about is option 6, regional cooperation. I have been the head of two regional bodies in my career, and I would like to make a plea against them. This is a real problem I have had with the Commonwealth over many years. The most successful regional bodies in Victoria are now all councils, and generally they were successful because there was a deficiency in the structure of the councils prior to them—and a few of us have probably been in those. But, where you have a good council structure, the regional bodies are a nuisance, frankly. I would be really worried about any service delivered through them because they are not directly accountable. They are not directly elected and, as I know from working on those bodies, if you are a minority party and you have real needs that are different from the rest, you will get rolled by them.

I have read some of the submissions that you have received, and I noticed that in Queensland there was a strong case for the regional bodies. It may be that they are very effective bodies, but they may be effective because there is something wrong with the boundaries in the first place, or they may address issues under state division of duties with local government that are more relevant. We all participate in regional bodies, and they tend to be in policy discussion areas and areas of mutual benefit. But, in the Victorian context at least, I do not see much of a role for regional bodies delivering this.

CHAIR—Your point is taken. As someone who lives on the state border, I think we saw some value when we had one there, but it has wound down now.

Mr SOMLYAY—No-one has raised competition policy payments, which were raised yesterday in Hobart. Did Victorian councils, who bore the brunt of the competition policy, get a fair share of return from the dividend?

Mr Edwards—No. It is probably a resounding ‘No’ from everyone. We got some payments passed to councils that other states did not get. New South Wales councils continue to argue with the Treasurer there about the burden they are carrying.

Mr Heine—Again, one of the dilemmas was that there were hooks attached to them.

Mr Edwards—That is right.

Mr Heine—They were used as large hammers to force us to comply with other state requirements. That was the thing that probably insulted most of us more than anything else—yes, you got it, but you also had to comply with this.

Mr NAIRN—Was the formula they used okay?

Mr Heine—No.

Mr Johnstone—No. All the best advice we have had indicates that we did not get back the share that local governments in Victoria earned.

Mr Edwards—In terms of an efficiency gain, that is right.

Mr KING—Somebody raised the issue of the questionnaire. It was confirmed to me that 1e is an option but it is not on the questionnaire. Perhaps that ought to be taken into account when it is filled in.

CHAIR—It will be updated on the Internet.

Mr KING—I want to thank all the people here for their contributions this morning. I know that you will probably do that later, Chair, but I cannot stay this afternoon and I want to say how good they were.

CHAIR—That is certainly appreciated. Is there any final point or comment on any issue that people want to make to the committee?

Mr Johnstone—We have had Hadley’s comment on regional bodies, with which I completely agree. I do not think they should be given any authority or funding. They should not be in any way in control of the local governments that they are dealing with. At times—and I do not think Hadley would argue about this—they can be extremely useful for ensuring appropriate cooperation in a region, but as soon as they have authority, funding or control over the dispersal of funds, they bypass the democratic process.

CHAIR—We take that point. We have had a thing called the ‘green triangle’ in different forms and varieties on and off over the years. It has helped break down some of the problems of an artificial barrier called a state border.

Mr Heine—That is probably where it does have some role. If you look at your economic, social and environmental issues and the fact that there are no invisible walls between municipalities, there is a need for regional cooperation in addressing those state and national agenda issues. Certainly, there would be no argument from the people in this room that we need to work together to achieve this. The issue where there is the most hesitation is the putting of them into a more formalised framework where they start receiving funds or making decisions about funds.

Mr Costello—We have been involved in some very successful regional forums where they have specific projects and areas to chase and it is all agreed on a cooperative basis. The Murray to the Mountains Rail Trail that Wangaratta, Alpine and ourselves are involved in is a fantastic example of regional cooperation and a regional group. But I think they fall apart when they are formed for the sake of having a region and they have to go out and chase funding to survive.

Ms Tod—The Greater Green Triangle is itself an example of cost shifting. They were funded originally, then the local governments had to pick them up. I am sure we would not want that to happen again.

CHAIR—If there is nothing further, I thank everyone. It has been an extremely useful morning. We really appreciate the time and effort that you put into the submissions and coming along today. There were some excellent submissions. I am sure that we will have some really good ideas to work with in getting a report together. I am hoping we will have the report finalised by the middle of the year. The committee still has hearings to be held in New South Wales and Queensland. As was mentioned earlier, the questionnaire is an opportunity for people to make some comments on the options, and that would be much appreciated. Again, a very big thank you to everyone for coming along.

Proceedings suspended from 1.00 p.m. to 2.02 p.m.

[2.05 p.m.]

BUTLER, Councillor Meredith Ellen, Mayor, City of Boroondara

JOHNSTONE, Mr Peter, Chief Executive Officer, City of Boroondara

CHAIR—I welcome representatives of the City of Boroondara. Would you like to make a statement before we proceed to questions, Councillor Butler?

Councillor Butler—I would love to make a statement. On behalf of the City of Boroondara, I thank you for the opportunity afforded to us today in making this presentation and congratulate you on the roundtable format held this morning. I trust that the committee benefited from the more open exchange of dialogue enabled by that forum. This is the second opportunity I have had to present to this committee. On this occasion I wish to expand upon the remarks made at the Alice Springs hearing and, further, to put forward proposals and comment upon some of the current thinking on answers to the funding problems besetting local government.

The wealth of detail in the submissions provided by many local governments—the MAV and the ALGA—has demonstrated that cost shifting from the states and the Commonwealth to local government is a significant issue for our communities. Many of the submissions nominate cost shifting from the state governments. Whilst there is considerable evidence of this, it is not surprising considering the many overlaps and common interests between state and local government. I would also like to focus on cost shifting occurring from the Commonwealth government.

The imposition of legislation such as the Disability Discrimination Act is a form of cost shifting. Whilst we applaud the provision of equal access enabled by this legislation, there is a significant cost burden imposed upon local governments in complying with this act. Where are the Commonwealth funds to enable local government to carry out the work required by this Commonwealth enactment? In Boroondara alone we have over \$1 billion of assets, and the current estimated cost for compliance is some \$18 million over the next 10 years. Some examples of the work required include ramps, door and corridor widening in the 419 council buildings, replacement of restrictive play equipment in over 50 parks, changes to car parking bays in over 50 shopping strips, and pedestrian and intersection crossings across the city.

In Victoria, home and community care is delivered mostly by local governments. The level of funding allocated to provide this service has been inadequate to meet the community's needs since its inception in 1985, despite the provision of growth factors within the agreements. Boroondara City Council provides an additional 20 per cent on top of the HACC funding received from the Commonwealth and state governments in order to meet the needs of our communities. Some local governments in Victoria provide up to 40 per cent additional top-up funding.

Members of the committee have posed questions as to why local governments provide services beyond the level of funding available or their capacity to pay. The answer lies in a local government's responsibility to their communities. As the deliverer of the service to the

community, local governments are best placed to recognise what level of service is required. Hence, when Commonwealth funding is not available, we often step into the breach and pay for the community's needs. Home and community care is a good example of a service which is clearly a Commonwealth responsibility, but local government in Victoria commenced providing these services from ratepayers' funds before the Commonwealth established the service.

I will not go further into the issues of cost shifting today, as the transcripts of the inquiry deal with the plethora of issues raised by local governments on this matter, and we note the inquiry's discussion paper of Friday *At the crossroads*. This discussion paper concludes that cost shifting is a major part of the reason for deficiencies in the revenue base for local governments. The potential solutions to the problem of cost shifting are fundamentally simple: local governments need access to a revenue source which grows with the economy and community demands. The City of Boroondara's costs arising from delivering services are directly linked to the growth in the economy. However, the main sources of revenues available to the city are based on the rating of property, which is subject to restrictive state legislation and state government decisions which are based on political rather than economic issues, through the restricting or capping of rate increases.

Access to a growth tax in the form of a share of total Commonwealth revenue or of the goods and services tax would start to offset the vertical fiscal imbalance which has arisen between the tiers of government. The Commonwealth government has more than adequate access to growth resources, whilst local governments have no access to economic growth funds. The current system of tied or specific purpose grants does not improve vertical fiscal equity or improve local government's net financial position, since the funding carries with it extra service responsibilities. Tied funding is, in effect, a contractual or agency arrangement, a purchaser-provider relationship, designed to meet the purchaser's objectives—that is, that of the Commonwealth government. According to the principle of subsidisation and in practice, there is no doubt that local governments are best placed to provide many services in the community, some of which are primarily a Commonwealth responsibility and concern. Home and community care is an example of such a service.

Direct funding from the Commonwealth tied to purposes of this nature can be an appropriate means of ensuring that Commonwealth objectives across Australia are met in a manner consistent with local and varying needs, but only if funds are transferred under sufficiently responsive and flexible conditions—and I note the rural example given this morning that different communities have different needs and expectations. There is, however, a danger with the concept of direct funding for specific purposes. Over the years, this funding has formed the basis of most modern cost shifting. Cost shifting can arise from the funding government—that is, the Commonwealth or state—failing to accept their share of responsibility for meeting the full impact of local needs and the conditions or needs over time. Invariably, because of inadequate contractual arrangements, it is the government responsible for the delivery of the service—that is, local government—that meets any consequent funding shortfall.

Any direct funding for specific purposes should involve a funding arrangement based on sound contractual principles to ensure that both parties to the agreement commit to an agreed basis of continued funding into the future. In the case of funding shortfalls, whether due to failure to maintain real funding levels or unfunded increased demand, it is the local government that is closest to the unmet need and the local government that takes up the additional burden or, often, suffers the political criticism resulting from the shortfall.

There would be little point and indeed considerable risk in local governments accepting additional tied direct funding from the Commonwealth government if the funding agreements were not based on contractual arrangements that adequately addressed possible future demands. Full allowance must also be made for the range of risks associated with a particular service provision—for example, litigation, industrial relations and the political risks. Such agreements must be capable of being responsive to changing local needs in specific local communities.

It is worth noting that the current financial assistance grants, although focused on issues of horizontal fiscal equity and redressing the disadvantage among local governments, also provide a degree of vertical fiscal equity through the guaranteed minimum grant. In the absence of other measures to improve vertical fiscal balance, such as growth tax, there can be no justification for removing the guaranteed minimum grant. Indeed, the vertical fiscal equity component of financial assistance grants should be substantially increased.

Proposals for the accreditation of local government to provide services on behalf of the Commonwealth government are discussed in the inquiry discussion paper as sent out on Friday. Our view, as I am sure you thoroughly discussed this morning, is that accreditation can be a means of central control of the nature and standard of services, tending to a one-size-fits-all paradigm. Further, accreditation can lessen accountability for responsiveness and effectiveness at the local level and encourage risk aversion and inadequate flexibility and service delivery. Bureaucracy and compliance cost will also potentially increase rather than decrease under the accreditation model and probably end up with an outcome that none of us are proud of. The constraints associated with accreditation, as stated previously, often assume that one size fits all because in a nationally administered program it is difficult to develop adequate guidelines to reflect differing local needs.

Regionalisation is another topic being discussed in relation to this inquiry. Our view is that regionalisation may be of significant benefit to rural and regional councils. However, this may not necessarily apply to the major metropolitan councils. While it is true that benefits may be achieved from a regional approach in cooperative planning—and maybe in metropolitan areas as well—of, for example, facilities for neighbouring councils, accountability for the delivery of services to their community should remain at all times with individual local governments.

In closing, local government is a level of representative government engaging in an electoral process and hence is responsible to its community, not to another level of government. As local government is the most accessible and therefore accountable to its communities, it should not be viewed as an inferior tier of government but as an equal in the partnership between Commonwealth, state and local governments working together to meet the community's needs. The City of Boroondara acknowledges the complexities facing this inquiry and, further, that a solution will not be found overnight. However, we commend you for taking up the challenge so that more equitable remedies may be found for the good of all Australians in their local communities now and in the future. As noted in the discussion paper, unless local government finances are improved, this level of government will continue to financially struggle to make the appropriate contribution to Australia's system of government. Thank you for your time.

CHAIR—Thank you. A question springs to mind with your suggestions about share of a growth tax—recognising as we do in our terms of reference that any proposals the committee puts forward should be budget neutral. How would you see that tying in with the funding that is

going to the states? In other words, would it be part of the state funding or would you see it as being in lieu of some other part of the budget?

Mr Johnstone—I could offer a suggestion on that. We think this is something that could be addressed over time by the federal government, with neutrality on current revenue and expenditure, given the growth of Commonwealth revenues over time. In addition, we believe there are some programs where savings are appropriate with more devolved administration. In fact, we would suggest that there are a lot of costs involved in the administration of many tied grants at present.

Ms BURKE—I was going to ask about some of the other things in the discussion paper about needs based analysis for council funding and removing minimum grants. What would be the view of Boroondara if they came out and said, 'Let's remove the minimum grants and just go to a needs based analysis.'

Councillor Butler—I think I have covered that in the paper. To remove it would create more of an imbalance and inequity as compared to ensuring equity now, let alone what should be happening in the future.

Mr Johnstone—The challenge clearly is to balance the problem of horizontal equity, redressing disadvantage on the one hand, and vertical equity in redressing the disadvantage that local governments generally suffer as against the revenue available to the Commonwealth and to the state, in that order.

Ms BURKE—Have you noticed the absolute focus we have had on regional funding being at a disadvantage to metropolitan areas? Even though we might categorise some of our areas as a 'region'—the eastern region, or the south eastern region, in Melbourne—there has been a disadvantage to some councils in that they have been locked out of federal funding, in particular, in respect of getting things because you cannot put a regional tag on funding applications?

Mr Johnstone—As the mayor was saying, we have no difficulty with regionalism from the point of view of cooperation. I think there are cases where that happens with regional grants. Our difficulty is that, when there are regional grants and the region itself has to divide them up, they are not very democratic decisions. The grants should go to individual local governments. But we have no difficulty with them going through the Victoria Grants Commission in that it obviously is closer to the situation in Victoria as a whole. But it goes back to your earlier question. We would be completely opposed, as the mayor said, to the abolition of the guaranteed minimum grant within the current FAGs, simply because without that Boroondara would not get any sense of vertical fiscal equity—any re-sharing of those finances that our ratepayers contribute significantly to.

Ms BURKE—If we look at Victoria versus the other states, we have had amalgamations and we have much bigger council entities than, predominantly, the rest of the states. In regard to putting in an application from a council to a national arena, looking at, say, Tasmania, where we were yesterday and where six councils have formed a region, that region will still be half the size of Boroondara. Do you find that sort of imbalance because you can't put on a tag again, and that we are cooperating by virtue of you being already at a maximum size?

Mr Johnstone—We are certainly one of the largest local governments in Victoria, and I guess that does give us advantages. The very small ones suffer considerable disadvantages in that regard. But again, I think what you are suggesting involves the Commonwealth making the distinctions between those councils. I would suggest that, apart from ordinary disadvantage tests and some redressing of that disadvantage, there ought to be untied grants available to local governments so individual local governments, on the basis of their size, can take those decisions and have the money available.

Mr SOMLYAY—I presume your ratepayers are sensitive to increasing rates.

Councillor Butler—I think everyone is sensitive to having bills increased.

Mr SOMLYAY—How do you explain to them that part of the reason for a rate increase is the state government, or the federal government?

Councillor Butler—Honestly and openly.

Mr SOMLYAY—You cannot really tell them that it is vertical fiscal imbalance; they do not seem to know what that means. But it is a real issue. Is there any attempt to tell the ratepayers that this cost shifting is occurring? If there is to be change that is where the impetus for the change should be coming from—through the ratepayers and the councils to state and federal governments. I have not seen any submissions from ratepayer organisations to date. Have we had many?

Councillor Butler—What is the questions?

Mr SOMLYAY—The question is: do you try to tell your ratepayers—

Councillor Butler—Regularly. The answer is: yes, we do. We had a 15 per cent increase in our budget last year—the rate income that we received from the community. Part of the communication was certainly about cost shifting and the issues that we had with cost shifting and providing the services that the community wanted. One interesting question that has already come up in terms of the 2003-04 budget was: why aren't we putting in a levy that covers the DDA expenditure that we have to go through? It would make it more transparent and obvious to people if it were not in a total amount that we give to the community in their rate notices, but something separate. Then they could see what it is costing them to do the DDA compliance. So that is just one of the current issues for us. We also communicate with them on a regular basis about what cost shifting is, what it looks like, what services it is affecting, and how much money we are expending and the differences between different levels of government. So they are aware of it. I do not really know that the full impact is coming back from the community yet.

CHAIR—In terms of this DDA, if your council were to design what you believe is a reasonable sort of disability assistance program, how different would it be from the one that has been imposed?

Mr Johnstone—That is a very good question. We would not question the desirability of the Commonwealth Disability Discrimination Act. If you are suggesting that it is the sort of thing we should be doing anyway I think the City of Boroondara would agree with you. The fact is

that it would be something that would go in with all our other priorities, given our very limited funding arrangement. It is certainly something that should be done. The reality is that the Commonwealth has taken the initiative. It is a Commonwealth responsibility to look after that sort of discrimination across the nation and they have created a funding crisis for us. Perhaps crisis is an exaggeration; they have created a funding problem for us in that regard.

CHAIR—In your submission you talked about the pension rebate scheme being one of the most significant areas of cost shifting. Have you quantified that?

Mr Johnstone—Yes. It is complex because pensioner rebates involve both the Commonwealth and the state. The best advice that we have had, having made representations to the Commonwealth and the state, is that the Commonwealth claims that the amount that it gives, by means of specific purpose grants, to the states for rebates has in fact been maintained in real terms—having regard to inflation—for some time. However, for something like the last 20 years, or maybe more than that, the state government in Victoria—whatever political party was in power—froze the amount passed on to local governments.

It would therefore seem that the state is using the general concessions amount—that also covers fuel rebates and such like—to fund rebates for which they are responsible. So it would seem that the state has been able to look after the Commonwealth grant for concessions by putting it into its own concession programs but has frozen, in dollar terms, the amount available for local government. What that means is that the concession has reduced in factual terms over that period and there is pressure every year, whenever a local government increases rates, to increase the rate concession. Our answer is that that is a state and Commonwealth responsibility. It is not easy to push that argument.

CHAIR—That raises two questions. First of all, can you quantify that?

Mr Johnstone—We could. I do not have the figures here, but we certainly could.

CHAIR—Secondly, given that the Commonwealth is providing the money—even if you are not getting it—do you think the Commonwealth should fund councils directly for that?

Mr Johnstone—The Commonwealth might need to put a condition on the specific purpose grant that it gets passed on. That really is our argument with the state, and we are certainly continuing to have that argument, albeit unsuccessfully. So whether it would be better coming from the Commonwealth—

CHAIR—It is just that the Commonwealth is providing the money; the Commonwealth has an interest in your argument.

Mr Johnstone—Indeed, and we have told the Commonwealth about our argument, but they have not done anything so far.

Councillor Butler—Also on that topic, I will give you an example of something that happens on the ground. Because the rate rebate has not really changed that much and the rates, values of properties, expenses and all those sorts of things are going up, another consideration for us in our budget might be that if there is no assistance coming from the federal government for the people on the ground with their rates, is this where we then also get involved in giving

concessions out? Obviously that is not what we should be doing but we could be forced into that sort of position—the community is changing in a huge way, fifty people have been invited to our centenarians lunch and we have people still living in their own homes. They are certainly asset rich but income poor because of the length of time that they are living, so this sort of assistance needs to come through. If they are not getting it from the federal government, then we might get the pressure around the council table for assistance from the ratepayers' funds themselves.

CHAIR—It sounds as though it is a healthy area to live in.

Councillor Butler—Yes.

Ms BURKE—It was one of the healthiest on that survey last year, wasn't it?

Councillor Butler—We make them all walk!

Ms BURKE—You raise a couple of issues in your submission, one of which is the removal of graffiti. Why isn't the removal of graffiti a council responsibility?

Mr Johnstone—It is to a large extent. The city of Boroondara has a commitment to remove all graffiti from council buildings within 24 hours. One of our largest difficulties is getting both state and Commonwealth authorities within the municipality to remove graffiti from their buildings, and that is clearly their responsibility. We also negotiate with private owners of buildings, and we have various deals available to encourage them to do so. But our significant concern is that on property owned by state and Commonwealth—whether it is owned by a particular authority, transport or a contracted out service of the state or Commonwealth—it can be difficult to get the graffiti removed. Obviously, that is a concern but not a responsibility to pay for it. So local government has to speak up on behalf of the community to have that graffiti removed.

Ms BURKE—In the cost shifts, you state the ongoing cost to council is \$10,000 per annum. Is that a council cost that you bear?

Mr Johnstone—The figure was \$10,000?

Ms BURKE—Yes.

Mr Johnstone—The figure that we spend on graffiti removal is somewhere in the hundreds of thousands. That \$10,000 would be specifically for matters relating to Commonwealth and state buildings. It is a very small part of our total graffiti budget.

Ms BURKE—When we see these things, we have to try and work out why someone thinks they are responsible—yesterday, we had Tasmania tell us that they were not responsible for stray dogs.

Councillor Butler—To give another practical example on the ground, Telstra's poles or Telstra's equipment might get done by us and the bill goes around and around.

Ms BURKE—And then it gets picked up?

Councillor Butler—Yes.

Ms BURKE—Economic development is obviously a growing area. In your submission you said that prior to 1994 it was not a responsibility of local government. Since amalgamation I suppose it has become more of an issue because of the growing size. Again, why have local government seen that as their priority now that they have picked it up and are running with it, and all councils are running with it very heavily?

Councillor Butler—If you look at something such as Melbourne 2030 that is happening at the moment, it is a whole-of-community approach to how we live. It involves the houses, the streets, the shopping strips and all the services that everyone provides. So the viability of a shopping strip in an area has influence on what is happening in broader terms across the residential areas. It is part of the community, and something that attracts people to an area that gives it vibrancy and those sorts of things.

Mr Johnstone—We encourage, for instance, the Business Boroondara Network as a means of improving the level of business skills for all the businesses in the area. We have businesses from small business, such as shops and home businesses, through to the headquarters of some of the major national enterprises in this country, all of which affect and contribute to the social and economic wellbeing of the community. It is a good example of local government not being able not to deal with economic development. If it chose not to, it would have a significant impact on the wellbeing of the community.

Councillor Butler—And there are so many more small businesses working from home. About five years ago there was a concept that ‘we are going to have isolation because people are no longer going to work and working with large groups of people, so we need to create networks’. Also, footpaths and everything are major assets in the shopping strips themselves. They are assets for local governments—and for state governments in different ways—that obviously have to be maintained. But other relationships also happen around, for example, the shops. If you build vibrancy, it becomes a better place to be.

Mr NAIRN—Looking through some of these, you say that court fees for recovering parking fines are a cost shift.

Councillor Butler—Is that the Federal Court?

Mr Johnstone—That refers to the PERIN Court.

Mr NAIRN—How is that a cost shift?

Mr Johnstone—The PERIN Court is run with the amounts that local governments pay. There are a variety of ways in which the question can be answered. I do not think any state or other body that benefits from the PERIN Court pays towards it. For example, I understand that CityLink, which undertakes a number of fines, benefits from the PERIN Court, yet it does not make any contribution to its maintenance.

Mr NAIRN—But that is a separate issue.

Mr Johnstone—With respect, I do not think it is. We are talking about local government meeting costs which are not its own, and it is doing so under the legislation of the state. It might be a broad form of cost shifting, but that is a cost imposed on local government due to state government practices.

Mr NAIRN—To me, it is like saying to a small business that goes to court to recover an unpaid bill that it has to pay a fee. Is that cost shifting?

Mr Johnstone—No, I have no difficulty with that at all. But we must pay for our own costs. I am saying that we fund the PERIN Court, which also does a lot of other things for other people who do not contribute to their costs. Their costs are met by the payments from local government, hence the cost shift.

Ms BURKE—So if everybody were meeting their fair share you would not have a problem?

Mr Johnstone—We would be paying less.

CHAIR—Thank you very much for your evidence. As I said before, we certainly appreciate the detailed submissions you have made to the inquiry as well as you having come before us here today.

[2.33 p.m.]

GOUGH, Councillor Geoffrey Kenneth, Mayor, Manningham City Council

BENNIE, Mr John Stanley, Chief Executive, Manningham City Council

CHAIR—Welcome. Would you like to make an opening statement?

Councillor Gough—Yes. Thank you very much for this opportunity to come here and speak with you today and present further information about this. We are really addressing the area of local government's expenditure and the impact on local government's financial capacity as a result of changes in powers, functions and responsibilities between state and local governments. The first issue we would like to make a statement about is really the one of financial capacity. We note—and we have noted over some period of time—that there has been a steady decline of funding in real terms from the state and federal governments. The combined impact of the increasing state requirements and the decreasing state support is having an effect on local government. The capacity of the state government to mandate spending or compliance issues without transferring the corresponding amount that it would cost to implement those revenues or taxing authorities is a concern. We believe that local government's financial sustainability is threatened in the long term if this pattern of decreased income and increased expenditure continues. I am encouraged by and acknowledge the committee's discussion paper that does put a strong case towards cost shifting. That has already been noted, and that is something we really do look at.

We talk about the spheres of government in Australia. We believe that there is a discrepancy between those spheres of government in terms of their expenditure responsibilities and revenue raising efforts. Local governments face increasing expectations from their communities for new and improved services as well as asset management and refurbishment. A range of added responsibilities are regularly passed on to the local government level, without adequate support. While councils are under pressure to increase the proportion of spending in their budgets towards renewal of infrastructure, the state government of Victoria has experienced a windfall in revenue as a result of the introduction of the goods and services tax. Despite this growth in revenue, the state government continues to inadequately fund programs, cost shift areas of responsibilities and introduce new compliance requirements to local government. Manningham City Council strongly argues that the federal government should bypass the state and provide local government with the appropriate share of taxation revenue.

I note one of the points in the committee's discussion paper in regard to the scrutiny of local government performance. I question the need for scrutiny of local government systems and performance. I believe that there are currently quite a number of performance and accountability requirements open to local government, specific to local government and not in effect at any other level of government. Local governments can provide a vast amount of data that is utilised already for checks and balances and that assesses the performance of different councils over different periods of time.

It cannot be claimed that the current financial sustainability dilemma facing local government is caused by management ability. If the assertion that we can manage things better and save

money is being made, we do not agree with it. We are putting a position that that is not the case. We have seen over the last 20 years that local government has become much more efficient and has implemented complex and effective planning and accountability systems. The current financial sustainability crisis facing local government is caused by structural funding issues and not by issues of management techniques, management programs and cost savings on that side.

We believe that local government receives an appallingly low proportion of the national tax revenue, at about three per cent, and that the federal government should consider structural change of the way the tax base is dealt with. When we talk about cost shifting, we are talking about the cost shifts from both Commonwealth and state governments putting increasing pressure on the rate base of councils. Manningham City Council has undertaken some basic analysis—which you have got there—and our submission attaches a table outlining the major areas which have been subject to compliance cost shifts, lack of realistic indexation and cost cutting. It indicates a number of things. The compliance costs are very important. Compliance requirements are imposed by the state government without adequate funding support or due consideration for additional resources that local governments may require to put in these things. Our council argues that the financial impact of the proposed legislation should be fully analysed and adequately supported when the legislation is required to be introduced.

In relation to our local government revenue base, I note that the committee's discussion paper asks whether the councils should simply say no and refuse to respond to community demands or requests from the Commonwealth and state to deliver programs. On this issue I would like to point out that local government is a very close level of government to the people and that, similar to the state and federal governments, it is a political institution. We do need to respond to our community and act in accordance with it. Local government has a governance role and responds to community pressure. When funding is withdrawn or reduced, a local government is placed in an invidious position, and perhaps even an impossible position.

I would like to give you the example of school crossings in Manningham. The warrants for school crossings to be supervised is funded by the VicRoads program, which is a fifty-fifty partnership between VicRoads and local government—that is, we put in half the costs and VicRoads put in half the costs. These schools have traditionally had a crossing supervisor on very busy roads. If the number of cars or children should fall below that, the warrant is no longer there and the service is withdrawn. The pressure is then on local government to fund the shortfall. It is very expedient to say, 'They don't meet the criteria and therefore it does not happen any more.' The realistic expectation that has been built up in the community is that these services do apply, and therefore that realistic expectation is placed on the local government to fulfil that need. The role of fulfilling these particular needs—I could go into the area of library services, where it has gone from 80 per cent to 20 per cent, and now has probably reversed the other way—to meet the expectation for these services to be provided is with local government. It is very easy to say at one end, 'You don't need to do it,' but in reality we do need to continue a lot of those services.

Having said that, unless fundamental revenue-raising issues are addressed, local government is likely to have little choice but to withdraw the provision of vital services. That will then have a follow-on effect, or a domino effect, back through different levels of government and impact on the good working of our communities as well. This is not really a good outcome for the community at large if that is going to happen. As far as this is concerned, our submission highlights the financial impact of cost shifting, underfunding, compliance costs and flow-on to

local government. Whilst the total figures in our submission are, in essence, estimates, council believes the actual figures will be even more than stated. The local impact of all the issues is estimated at \$4 million on operating costs per annum and \$3.5 million on capital costs—a total of \$7.5 million overall.

I would now like to talk about the key outcomes sought by the Manningham City Council. The state government should end the imposition of state issued compliance mandates without adequate state funding or recognise that local governments may raise any shortfall in revenue through a dynamic rating strategy. I would also like to point out that we would like federal and state governments to note that cost shifting from states to local governments has, in many instances, forced local governments to raise rates or to curtail services; that the federal government should consider a significant structural change in the way the tax base is dealt with; that the federal government should redirect some of the states' GST revenue and pass it directly to local governments; and that the federal government should recognise that the financial sustainability of local governments is threatened unless this cost-shifting issue is addressed.

CHAIR—Thank you. You suggested that if the financial problem was not addressed you would have to withdraw vital services. Can you indicate what you describe as a vital service?

Councillor Gough—Vital safety services that the community expect—school crossings, lots of educational programs, HACC services and things for the ageing community. If we only spent the amount of HACC money provided in the budget, and none of our own, a lot of the services going on out there would be curtailed or the number of people not receiving the services would increase substantially. Therefore, the community would not be benefiting to the level they have previously come to accept as the level of service and the services provided to those people in the community would be curtailed.

CHAIR—When you mentioned the first one, I think you said that the state had withdrawn the funding but that the Commonwealth had picked it up.

Councillor Gough—That is right.

Mr Bennie—We would define 'vital services' as those that are determined by the majority of the community as being necessary and a significant need. Across that, you can consider, as the mayor indicated, library services, school crossings and HACC services. We would not consider closing libraries, but we would certainly consider closing them over significant periods of time. As for school crossings, I think the mayor gave that as a very good example. And there are HACC services, where we are looking at putting more and more people on waiting lists rather than delivering services. There are any number of activities across the broad range of services delivered that we would consider as vital to our community.

Mr GRIFFIN—How do you define majority community support for something—by council vote? You said that vital services were determined by the majority of the community.

Mr Bennie—The best value approach in Victoria has been very useful in that it has caused us to go through a significant consultation process with those in various segments of the community who use the services, and they have ratified the level of service that they are asking the council to deliver. It is only in the last 12 to 18 months that we have obtained a very clear indication of community need for service delivery.

Mr GRIFFIN—Again, I come back to that point. You are not talking plebiscites, and I am not saying that I support that. It is just this concept of ‘we know what the community want and therefore we define those needs on behalf of the community with their support’. I am a former councillor, and I have a view on some of this stuff myself. I am just not quite sure how you determine that and how you can speak with such authority on it.

Mr Bennie—We have known for many years as councils what our community wants. A council like Manningham has been consultative for many years and has been able to verify the level of expectation and satisfaction in the community for service delivery. But the best value legislation which I referred to at the state level has made it mandatory for every council to go through that process. Through focus groups and broad community surveys—not a plebiscite where we are touching every member of the community, but for those, I guess, that are targeting a particular service area—we are extremely confident that we have a good handle on their identification of service need.

Councillor Gough—The difficulty arises in the reduction or the stopping of a service. The community comes to expect that certain things are delivered to their community. When they start to be withdrawn—and, financially, we cannot keep on funding shortfalls, especially when we go into partnerships; from the outset it is very clear that the partnership is fifty-fifty, a third each or whatever—we are the only ones who are topping up the shortfall in a consistent method.

Mr GRIFFIN—I am not defending the actions of state or Commonwealth governments with respect to the question of funding for service delivery. I am trying to address that question—

Councillor Gough—Which is fundamental.

Mr GRIFFIN—I think it is actually overrated. It is a very hard thing to do and I think that you guys are a lot closer to it than we are. But it is also a question of degree.

Councillor Gough—I think I got what you were saying: how do you know they are the essential services? You are the ones who are funding it, so the federal and state governments have recognised that these are essential services. We are implementing them. The money is not there to continue the implementation. If you did not think they were valid at all, you would not have even funded them in the first place. If we have programs that are going in, we have a situation where, over time, the level of funding drops away and therefore the level of what people get is going to be restricted to the number of people and it is not going to cater for the population you believe it is catering for.

Mr GRIFFIN—Playing devil’s advocate, I could argue that, yes, we have identified them as being very important essential services, but we then come to the conclusion over time that they are less essential, less important and less funded.

Councillor Gough—It would be very nice if the federal and state governments would make those announcements to the community and say, ‘We don’t believe that this is an important area any more and therefore we are cutting the funding.’

Mr GRIFFIN—That is a valid point.

CHAIR—You keep saying ‘federal’ and ‘state’. I wonder which federal programs you are specifically referring to as though they are the dominant ones.

Councillor Gough—We are talking about funding. A percentage of our funding comes through the federal government via the state government to local council. Some comes straight to us. But it is keeping pace with—

Mr GRIFFIN—Aged care. We get the perennial problems of who funds what in roads and regulatory stuff in relation to food, which we talked about before. There are a few under Roads to Recovery, which is going to cease fairly soon.

CHAIR—Anyhow, we will not debate this.

Ms BURKE—Regarding the perennial question of managing that expectation, I would like to give my constituents everything they ask for, but there is only a finite bucket of money. The constituents are not going to hand over 100 per cent of their income in taxation to get everything they want. We have been around the country now and we have heard people say, ‘Local government responds to community expectations.’ There has to be some degree where you have to say, ‘We’re really sorry, but you can’t have an Olympic sized swimming pool in every corner of the municipality.’ But you have come back again and said, ‘We’re delivering community expectations.’ How do you manage that?

Councillor Gough—We are not necessarily talking about those huge infrastructure issues. We are talking about the everyday infrastructure issues of roads, normal safety situations, community services, HACC services and library services—the things that are institutionalised, that have been going on for quite a number of years and where the sources of revenue to continue them has been depleted over time through inflation and other add-on costs. These are the things that are not getting implemented to the level needed. That is a huge amount of money on a recurrent basis, year by year. Eventually, we will not have the money to continue to operate them.

Mr Bennie—To add to that, I think we have reached a particular point in time in which, as Boroondara said before, we are going to have to be extremely careful from here on in about what services we take on and how we address the needs of the community. Up to this point in time, and as we have identified in this summary submission today and the submission that we have made to you, we believe conservatively that we have absorbed some \$4½ million in operating cost shifts over a fair period of time. What has happened is that a lot of these things have just crept up on us and we have absorbed them as time has gone on. Now, through this inquiry, we have had the opportunity to sit down and reflect.

We have an operating budget of about \$44 million. Give or take, we are talking about 10 per cent of our operating budget having been absorbed in cost shifts. We have been able to do that over time, whilst maintaining community satisfaction. So, arguably, that is a 10 per cent efficiency gain that we have managed over time. But, from this point on, anything further that we are faced with is going to tip us over the edge. We are going to have to be extremely careful. It would be good to claw some of that back. That may be unlikely; in that case—as we said in our submission—there ought to be a recognition that we have absorbed this over time and that we are continuing to cope. But from this year on, I guess—and school crossings are an example

that was on our agenda this week—we are going to be extremely cautious about what we take on.

Councillor Gough—That last point is a really important. For anyone wanting to put programs through our local government, we might not want them, even if they are offering us the money—because we know we are left holding the baby down the track; we know what that means. Therefore, with respect to programs that other levels of government are wanting to introduce into the community, we are saying, ‘Don’t come to us; give it to somebody else. We know from past experiences that, over a period of time, we will be left holding the baby. We’re not going to do it. Go and find another provider to do it.’ We might be in the best position to introduce those programs, and we might be able to do them the best and for the cheapest price, but we are going to be very careful about committing ourselves to anything in the future. It is like giving someone else’s child a battery operated toy; the parents are forever paying for the batteries, and they want to throttle the person.

Mr SOMLYAY—I do not know how long you have been in council, but if you go back in history and look at the amalgamations under the Kennett government and the fact that rates were cut 20 per cent, were there any cuts in services for your council or neighbouring councils?

Councillor Gough—Services were cut.

Mr SOMLYAY—They were cut?

Councillor Gough—In certain instances they were. There were some very minor ones which were coped with very well at Manningham. I was not around at the time. One service—a very small one but a very nice one—was the baby capsules for the new parents. When new parents left the hospital they could hire a baby capsule for a few months, and that cost was then put onto the rest of the community. A number of services were cut back. It has taken a while to estimate those things. There were a lot of efficiency gains. If you go into your inquiry saying, ‘We’re going to do this by efficiency gains again,’ I think there is a limit to how many times you can reorganise something to get efficiency gains before you reach the baseline.

Mr SOMLYAY—Was there any pressure put on the federal government over HACC funding at that time when you lost 20 per cent of your rate revenue?

Mr Bennie—There would have been. The pressure then would have been no different from previously and what it is now—that is, that the equitable allocation of funding for that particular service has not existed. To pick up on the previous point you raised—and I think this is what Mr Griffin was talking about a little earlier—I think that 1995-96, the time of amalgamation and microeconomic reform, was a very important time in local government. It was useful in many respects. It caused local government to go back to first principles and it caused us all to identify the activities that we were involved in. I guess it is fair to say that, prior to that, because services were not specified, we did not have a good handle on what was being delivered, how much of it was being delivered and to what standard we were delivering it.

We all had occasion to review our community service obligations. At that time, if we considered that, on reflection, we did not have a CSO or the community need did not exist as it might have previously, it gave us an opportunity to reduce those services. In Manningham’s case it was actually a 12½ per cent reduction. We were not amalgamated with any other

municipality, so we had to find 12½ per cent off the bottom line. It came about that it was probably more palatable to reduce service delivery in line with what we had identified at the time was not a CSO or where there was not going to be any great community implication in doing so.

CHAIR—As there are no further questions, I thank you very much for appearing today.

[2.54 p.m.]

CORR, Councillor Francis John, Mayor, City of Maroondah

CHAIR—Thank you very much, Councillor Corr. You have been very patient. Would you like to make a statement to the committee?

Councillor Corr—Yes, I would. Thank you for the opportunity to address the committee this afternoon. I trust you found this morning's session with the CEOs from the Victorian councils useful and I appreciate being given this opportunity to provide some input from the elected representative point of view. I too enjoyed this morning as an observer. I have had the opportunity to read the committee's discussion paper that was released last Friday, and I commend the committee on the synthesis of the evidence so far. We particularly welcome the paper that appears to give guidelines and parameters direction to the hearings, which were somewhat lacking when we sat in and watched the hearings in Alice Springs. I believe they are becoming widely embracing, and the directions and parameters you have set can only be useful. The acknowledgment by the committee of section 3.5 in the discussion paper that 'the growth in local government's functions has thus far outstripped its financial capacity to discharge all those functions adequately' is very welcome and has now moved the debate forward to what can now be done to redress the situation. Maroondah City Council wrote a submission for the inquiry in August 2002 and we are pleased to see that a number of the issues we raised were included in the discussion paper. We took some satisfaction out of the fact that you, Mr Chairman, saw fit to address our items in our paper at the speech at the ALGA conference in Alice Springs.

There is a high level of congruity between the categorisation of the increased costs of local government in Maroondah's submission and the categorisation in your inquiry discussion paper. We do not wish to restate our council submission; rather, we would like to take the opportunity to provide some initial reaction to some of the questions you have posed in your discussion paper. We believe your first question in section 3 goes to the heart of the issue:

Is there a need for significant changes to local government's current package of roles and responsibilities?

I believe that one of the inherent strengths of local government is the ability for a council to recognise and respond to its own local needs. A centrally defined specification of what councils do or do not deliver could be counterproductive to that inherent strength. It would appear to me that some of the thinking around defining things that local government would or would not deliver, such as local public service agreements in the UK, provide a mechanism for the federal government to deliver on the national agenda but would limit local government's responsiveness to particular needs. I now turn to question 3:

Is there a need in some regions for restructuring to improve the viability of councils?

I believe some elements of Victorian local government restructures have delivered benefits; however, council amalgamations in Victoria were accompanied by a 20 per cent rate cut and rate capping. This was then followed by compulsory competitive tendering. Councils are still trying to recoup the losses in their infrastructure expenditure that have occurred during that period. At the core of this example is the capacity of councils to determine their own source of

revenue. The triennial democratic process of local government elections provides a reality check on the capacity or the willingness of the community to pay. A council that loses the confidence of its community over excessive rate increases is liable to be tossed out. Many of us will be facing that within the next six weeks. I now turn to question 7:

What specific steps might be taken to generate significant increases in income from local government's established revenue base?

We are of the view that the increase to local government through rates cannot be seen in isolation. The overall tax burdens the community. Maroondah has worked hard particularly to obtain a levy on developers where possible, but this is an exception to the norm and is often challenged via the courts or VCAT. Question 10 says:

Is there a case for reducing or abolishing the minimum grant?

I am of the view that it is right that a minimum level of FAGs should remain, although the amounts could vary. The principle of a base federal per capita contribution regardless of socioeconomic status is sound.

In referring to infrastructure, Maroondah City Council has a rating policy of applying an additional 2½ per cent per annum on the rates as an infrastructure levy. Despite this, we are still in a deficit situation when we apply depreciation. Road to Recovery funding has been a lifeline for us and, in our view, must be continued. As an observer I was strongly struck by the attitude of different states in the state-by-state variation in grants in Alice Springs. There appeared to be very little relationship between states' acceptance of and dependence on FAGs or HACC. It varied very substantially from state to state. The Northern Territory and some states would appear to depend much on HACC; we seem to have a greater emphasis on the FAGs program.

In relation to regional cooperation, many Victorian councils currently have planning and regional service delivery arrangements in place. There are inherent difficulties in the structure of some of these regional arrangements when the aspiration of the regional legal identity outstrips the capacity of the member councils to pay, where a common view of the corporation cannot be arrived at or where there exists a wide divergence in community expectations. I believe the greatest benefits from regional cooperation are in planning rather than service delivery. Economic development and planning are very good examples. Councils in Victoria have reduced from 210 to 79 and, as such, have a greater geographic coverage and influence than before. This has lessened the need for any further rationalisation in Victoria.

With regard to accreditation, local government, through signed service agreements with the state and the Commonwealth, already contains an element of accreditation for tied program funding. Maroondah City Council would not support a further ranking of councils along the UK model over and above the current state government performance indicator regime which is already in place.

In relation to the options outlined in the discussion paper, I would like to comment on some that look worthy of further consideration, although I do not believe this is mutually exclusive. Option 1b, 'Treat FAGs simply as a tax transfer with a simplified distribution system and formula, administered nationally', provides a great deal of possibility for councils and appears to provide a tacit recognition of local government as a level of government in its own right.

Option 2, 'Include local government in negotiations for the next Commonwealth-state financial agreement', would provide a seat at the table for local government in negotiations of state financial agreements and could only benefit local government. Option 4, 'Conduct a national study into local infrastructure needs and funding in order to fill the gaps in current knowledge and reach a national consensus on the magnitude of the problem, consider a wide range of funding options including local infrastructure levies and increased but cautious use of borrowing', would be an important piece of work and should be encouraged. We do work in partnership with our community. Maroondah is, for all practical purposes, debt free. This has been extremely welcomed by our community, and it would be extremely difficult to reverse that process unless something quite outrageous faced the community. Option 5, 'Maintain Roads to Recovery into the longer term, either in its current form or as a component of AusLink', is a critical success factor in the ongoing viability of local government.

In conclusion, while the issues of growth tax for local government may be outside the terms of reference of the committee, I believe they have to be considered. The other options would be that we would be doing less. Increased rates are our only other sources of revenue or trying to do more regionally. But these would be peripheral to the central need of access to a growth revenue base. I would like to thank the committee for their work and their time today.

CHAIR—Thank you. Thank you also for your comments on the discussion paper. That is very useful. You said that a growth tax is outside the committee's reference. It is not really. What we have had is a budget neutral constraint, which does not necessarily exclude that. If it were to be on that basis, would you be in favour of it—rather than some of the funding that currently goes to the state—being redirected direct to local government?

Councillor Corr—Superficially I would agree with that, but I would have to know what work goes on at the various levels before I would categorically say yes. It seems to be very attractive from a distance.

Mr NAIRN—I should have asked this of some of the other councils. I was trying to get a feel for what this actually means. The MAV have given us various figures about some of the debt—particularly, I should say, unfunded superannuation liability and cumulative capital spending deficit, called LUC. Is there some historical stuff in this? I look at your shire—

Councillor Corr—City.

Mr NAIRN—City, sorry. I have all shires in my area except for one. Maroondah is right next door to Manningham. I do not know Melbourne all that well so—

Councillor Corr—They are slightly north-west.

Mr NAIRN—There are a lot of similarities between the shires. The average taxable income is not drastically different. Manningham is probably a bit richer than yours.

Councillor Corr—Substantially so, we would think.

Mr NAIRN—The rate revenue is not dramatically different. Manningham, on the quick calculation I have done here, is \$34 million and Maroondah is \$30 million. But Maroondah has a debt or an LUC—I should not call it a debt; LUC is unfunded superannuation and other

things—of over \$21 million, whereas Manningham is actually in the black to the tune of \$38 million, which is a pretty drastic difference.

Councillor Corr—That was inherited by the council.

Mr NAIRN—That is my question, I guess, so I can understand these figures a bit better. Is that something that has built up historically over a period of time?

Councillor Corr—No, it is a direct result of amalgamation, where no provision was made for that. We were dependent on the commissioners at the time as to who they made redundant and as to how our council bore the responsibility for the unfunded superannuation. It was totally outside council control and before council could resume. We inherited it.

Mr NAIRN—We ended up across Victoria with some drastic differences.

Councillor Corr—We know. In fact, I believe that the thrust by the state government that asked councils to be debt free was abandoned at that time to make provision for that very factor.

Mr NAIRN—Thank you. That helps me understand it a bit better.

Ms BURKE—I did not hear if you made reference to it in your submission to us, but on the issue of minimum grants and whether they should be abolished or taken away—

Councillor Corr—I am sorry. Early in my piece I did say that we did believe minimum grants should be maintained.

Ms BURKE—You would get more than the minimum grant? Are you on minimum grant?

Councillor Corr—I would think minimum. I have not got an officer with me, for which I apologise.

Ms BURKE—That is fine.

Councillor Corr—He is a prospective father and there has been an alternative call on his time.

Ms BURKE—Fair enough.

Mr NAIRN—Priority calls.

Ms BURKE—I fully endorse that. Going through the submission and looking at some of the issues such as super unfunded liability, national competition policy and the 50 kilometre an hour speed limit, why have you seen some of these issues as—I know that was a legislative change by the state government but it was endorsed by local councils, predominantly—

Councillor Corr—The physical cost of marketing them and marking them was borne by local government without any suggestion on our behalf. In recent times there was quite a small

change that we would be responsible for the painting of all traffic signs and posts throughout the community, and that runs into thousands of dollars.

Ms BURKE—But if you take a purist view, it is your road infrastructure.

Councillor Corr—But it was always the responsibility of the road authorities. They changed the rules and we inherited the cost.

Ms BURKE—The other one is that you have school focused youth services. Again, these are issues where they have put out an application and said, ‘Sign up; get on board.’ You as a council have determined to do that. Nobody said you had to. You have chosen to do the service. Funding may have been withdrawn, but you continued to do the service. We are getting at—

Councillor Corr—I agree but I would think it unrealistic to say someone sent out an application. There was a community need identified in the application; the government identified it and asked us to provide a fund to address the need. Then it withdrew the funds at a later date. We could not really withdraw an established service to the community.

Ms BURKE—I suppose it gets down to some of the other issues that others before you have been raising. Are you coming to the decision now where, if the state or the federal government come along with a program, you are saying, ‘No, we don’t want to be part of that,’ even though there may be community need or demand?

Councillor Corr—Sometimes you can abandon a program, but you reach a point where you cannot. The one that I find meaningful to me is the HACC program for home services. In reality, although the funding is not going up, under current costs it does mean that an incontinent elderly person can have only three showers a week if we stick to the funding we are given. So we supplement it. To be a human being and to cut it further would be almost unbelievable.

Ms BURKE—Do you have figures on how much you believe that to be?

Councillor Corr—I believe they may have been in our original submission, but I can get them if they are not.

CHAIR—Thank you very much for that. We certainly appreciate your interest, seeing that you have been here all day.

Ms BURKE—The effort you put into addressing the paper was very good. Thank you very much for that. It was really wonderful.

[3.10 p.m.]

McLEAN, Mr John Ernest, Chief Executive Officer, City of Ballarat

CHAIR—Welcome, Mr McLean. Thank you very much for coming along. Would you like to make an opening statement?

Mr McLean—Yes, just briefly—at the risk of repeating some of the matters that have already been raised. I want to go through our submission, and pick up on some of the broader issues that have been raised and something that has been discussed in the last two or three presentations. I will touch on some of those matters. It is more the response that Ballarat is positioning itself for in dealing with some of these issues that I want to touch on firstly, with a couple of examples. I then want to comment on a couple of the broader issues that are in the paper and that were discussed this morning

Just on the well discussed HACC issues, over the last year or so, Ballarat has been reducing the amount of funding that the council has been putting into those services. It has been trying to do it in a way that minimises the impact on the community. It certainly clearly recognises the need, but finds that pressures for other priority areas of expenditure, particularly infrastructure, mean that this course of action is absolutely essential. We have not had waiting lists; they are just starting to come in now. We have had a very high level of service that the community has valued greatly. But we are getting back to the contract of level of service and we are withdrawing to that figure; it was up to half a million dollars two or three years ago. As well as the pressures on those people desperately in need in their community, it also puts incredible pressure on our staff—who have to deal with those people and the families of those people, as well as their medical and other services such as carers—to deal with those pressures. There is a significant issue there. But we are taking that action and we will continue down that path to get back to that contracted level of service.

The other issue is one that has been discussed a fair bit over this afternoon session: funded initiatives or new grants that come along. Over the last two or three years, Ballarat has been adopting the approach that, if it is going to accept one of these offers, as part of the resolution to proceed there will also be one that, when the funding is withdrawn, the service will be withdrawn, and we will be very public about the reasons for that. I guess we see some of these opportunities as a subtle lure to get involved in things, and they are very attractive on the surface. We have not had to stop any services yet. It got very close on a couple of programs last year, but some additional funding came in. Certainly, Ballarat is positioning itself to be able to say that we are no longer going to continue with whatever that service might be.

Mr SOMLYAY—Can you give us an example of that?

Mr McLean—The one that was particularly critical last year—and I cannot remember the actual definition of the acronym—was the CSRDO program. It is a children with special needs program. Funding was proposed to be significantly cut, with a very intensive program towards the middle or the end of last year.

Mr NAIRN—Where did that come from?

Mr McLean—To be quite honest, I cannot recall the exact details of that, but I can find that out for the committee.

Ms BURKE—It was state funded, though?

Mr McLean—It was a state one; that is my understanding, yes. It is not just those service type programs—and there is a whole plethora of those. Also, when you get capital grants they often have significant maintenance liabilities that continue on with local government, and there is no support for that. I just wanted to use those as a couple of examples of the way we are positioning ourselves to deal with those pressures into the future.

Picking up some of the comments from the paper, I would certainly support the comments made this morning—and I guess there were some differences of opinion—about the need to define the roles of the various levels of government, at least in broad terms. That gives us a way forward in working out where the basic activities lie and then gives us in the local government sector the opportunity to make conscious decisions about whether we want to expand and get into another area. At least you know where the starting points lie. We have the view that we are agents for other levels of government in some of the services. We use that as a model for our thinking and our planning. If we know what the basic roles are, it gives us an opportunity to work out our financial and resource planning to deal with them.

The other area that has come up a number of times today is the regionalisation approach. We work very actively in a number of different regional organisations on advocacy planning, economic development and those sorts of issues and think that is a very good model. The concept of an administrative ROC that would become the funding body is an unnecessary layer and does not add to the value that we can get. It is better to keep it at the voluntary level where you have a point of common interest. They were the two key broad aspects I wanted to pick up on. Thank you very much for this opportunity.

CHAIR—Thank you very much; that was certainly a very interesting contribution. You mentioned that you have reduced the HACC funding. How have you managed to do that and maintain confidence in what you are doing?

Mr McLean—We did that through a very careful assessment of the needs of new clients. We really pared back and are operating at the minimal level of service—rather than an ideal level that we would like to provide to those members of the community. We have also reduced the hours of service from two hours to 1½ hours. We have used those sorts of strategies gradually to try to ease it down without causing undue pressure. We have not had waiting lists; they are just coming on board now.

Mr NAIRN—Does Ballarat council deliver any of the community aged care packages?

Mr McLean—Yes. I cannot give you the details of that, but we are involved in some of those. We are using that as a way to help because the financial arrangements are more attractive through that model and we can help balance out some of the staffing issues that way.

Mr NAIRN—So you cannot tell me how many you have?

Mr McLean—Not off the top of my head, no.

Mr NAIRN—You probably have a contract for 10, 15, 20, 30, 50 or whatever. Do you deliver the number you are contracted to deliver, or are you able to do more than the contract allows for?

Mr McLean—I cannot give a specific response to that. I can get you the information if you would like it but I am not aware of that level of detail.

Mr NAIRN—It would be interesting to know. The reason I am asking—and I raised it earlier—is to find out the most efficient mechanism for these things. I commented to somebody—maybe privately—that some of the nursing homes that deliver community aged care packages can deliver more than they get paid for because of great efficiencies they have in the type of staff they employ and the running of the nursing home. That is why I would be interested to know how the councils that deliver them incorporate it. Councils potentially can do a similar thing because of the HACC program they run.

Mr McLean—I made a note this morning about your comments on the nursing home example. I can get that information for you.

Ms BURKE—We have nursing homes and retirement villages in Victoria that do the same thing; they put in for the same tendering rounds for CAPs as the local governments. One of the issues in Ballarat that the esteemed federal member for the area keeps raising is child care. I suppose that is about managing expectations in a regional area that does not have it. Has local government decided to stray into that area? Everybody has been talking about community demand and expectation, and I know that is one that is there.

Mr McLean—Yes, Catherine has been very vocal about that.

Ms BURKE—Catherine has been very vocal about that.

Mr McLean—We have a number of services and we have just gone through an extensive best value process, an extensive community consultation and an adoption by council of some policy support to stay in that business for now. We are not planning to grow our involvement. There are two main long-day care centres and an occasional centre. An innovation that we will be introducing—there will be some public announcements shortly—is for the private sector to make a significant contribution. There will be an extension to make a 35-place centre up to a 60-place centre that will operate as an occasional child-care centre for the staff of a large enterprise in Ballarat. Their staff will be able to take up the first offer of places. So there are orders of magnitude and critical mass efficiencies that you can gain. We are trying to work in collaboration with other players—it is quite an exciting project—but we will not be extending our role. We are also working with two or three private sector providers that are interested in setting up there. We are working with them in terms of information and facilitation roles.

Ms BURKE—So instead of the community saying, ‘It’s a desperate need in our area—council, do it,’ you have thought outside of the square and said, ‘How can we facilitate this without bearing the cost?’

Mr McLean—Absolutely.

Ms BURKE—What about minimum grants?

Mr McLean—We were one of the councils who saw a shift in the grants last year, and we took a fairly active but unsuccessful role. It was a conscious shift by the Victorian Grants Commission to allocate more finance to the smaller regional, rural areas, and the regional centres had a reduction. You can view that in a couple of ways. One way is that we were probably doing very well in the past and it has perhaps come back to a more realistic level. Minimum grants are an appropriate way to go. The danger is in not having enough flexibility to look at real needs and to pick that up in a more specific way. I have been doing some research for a paper I am presenting tomorrow at the local government conference on international relations in local government, which is a bit broader. I have had some experience in Japan. They have a very different system. They see it as a two-tier system of government, where the state and local government is seen as local government and there is a much greater return of income. Two-thirds of the income that the national government receives goes straight back to that level, and they basically step out of the whole works. The different models are interesting. But, in general terms, the minimum is appropriate.

Ms BURKE—Looking at that example, at the roundtable this morning I raised a hypothetical question about getting rid of the state grants commission and having a direct funding relationship with the Commonwealth, be it an SES model, a tax transfer or whatever. What do you think of that notion of direct funding?

Mr McLean—I think it is harder to do it from a national level. Even at the state level it is hard to get local knowledge and understand the local differences in needs. I would side with some of the concerns raised this morning about it being done from a national level.

CHAIR—You said you now have a policy that you will only accept a program while funding is there and, once the funding is cut off, you will cut the program. You mentioned one example. Have there been any, or many, others?

Mr McLean—That is the only program that has come to that point. The other program that is finishing shortly and is causing us considerable concern about what to do relates to the issue of community safety. We had a Department of Justice grant for some safe city activities. That has led to a constructive team working with other service providers in Ballarat. The loss of that resource will mean that the arms and legs to do that work will no longer be there, so the broad based overseeing committee is really struggling with what we are going to do. It is another program that is bringing people together to get some interaction between different service providers and stakeholders that will probably fizzle out over the next few months unless we can find some alternative source of funds.

CHAIR—Thank you very much, Mr McLean. It is much appreciated. Thank you for coming all this way.

[3.24 p.m.]

HANNAGAN, Mr Kevin John, Chief Executive Officer, Strathbogie Shire Council

CHAIR—Welcome. Would you like to make a statement to the committee?

Mr Hannagan—I am speaking from a very small rural shire perspective, having worked at Tatiara District Council in South Australia, at West Wimmera Shire and now at Strathbogie Shire. I have worked in councils from large rural councils such as West Wimmera, which is around 7,000 to 8,000 square kilometres in size and has a population of 5,000, to smaller councils like Strathbogie, which is about 3,500 square kilometres in size with a population of 9,500. We currently have a budget of \$13 million. Of that, \$4.5 million is rates, so we are very dependent on grant funding for a lot of our other income. Some of our demographics, from the ABS in 2001, are: 50 per cent of our household income is less than \$400 a week, and 50 per cent of our people are over 50 years old.

Our submission to this inquiry was not very detailed, because we do not have the resource or skill level to identify a lot of the costs in relation to cost shifting. I think a lot of other councils have covered that. We just do not have those resources. Our submission was based on compliance with state and federal legislation. I am suggesting things like tobacco legislation, food safety and HACCC—we have talked about libraries, school crossings and things like that. Our problem is that this impacts on our ability to provide basic services to our community. Last year's rate increases, besides CPI, were related to compliance costs, therefore leaving no new income for the infrastructure gap, which I will get onto shortly. As I said, we have a very small population, so the minimum grants are very dear to our heart. We put a submission in to the Grants Commission to try and extend those to other areas. We have a small population and very long road lengths. We have over 3,000 kilometres of roads. We have the fourth highest number of bridges in the state—150 timber bridges—which are all coming to the end of their lives. Most of them were opened up after the Second World War and the opening up of the country. A lot of them were built with state and federal grants, and now the renewal cost is coming with them.

We do not have the ability to raise rates to address these issues because most of our rate increases go in compliance costs and just keeping up with the legislation. We have spent the last two years, and have invested time and resources, trying to identify factually what our infrastructure renewal is. We are now implementing—we are just getting the draft cuts off—an asset management system. The plan is in accordance with the IPWA standards et cetera that are now recognised across Australia. We are looking at our total assets. Traditionally, local governments looked at this and that in isolation. We have done a piece of work on our total assets.

Part of that process was an inspection of some of those assets—and we wish we had never done that. We all know of the Brodie case et cetera. We got an independent inspection of our bridges, and one-third of them were derated in tonnage. As soon as we were faced with the report that they were unsafe, we had to act. We would have been negligent had we not. Obviously, the community were not very impressed with this. We had some very ugly scenes in the council when the real costs for farmers in having to go 40, 50 or 80 kilometres around

another way because they could not go over a bridge became apparent. We then thought that we would get another consultant's opinion and test some of the new tonnage limits, because we had not paid for a full, rigorous analysis. It is quite expensive to pay for these analyses. We spot checked six of those 50 bridges and got an independent analysis, which cost a lot more money, and they derated the tonnage even more. So we gave that up because the community were very impressed with all the money we were spending on consultants while spending nothing on a stick of wood.

Therefore, our total Roads to Recovery money is going to repair half those bridges. The community just has to put up with the restrictions on the other half. I am expecting a major change of councillors at the next election because of this issue, though it has been in the making for 30 years and it is not their doing. Again, this is the first draft cut of our information management system. I will be sharing that with the new council and letting them know about the state policy, as far as rate rises, CPI and infrastructure renewal goes, and I am sure the new Minister for Local Government will stand well behind us when we announce a 60 per cent rate rise for the infrastructure renewal gap.

As I said, we have got the second highest debt per capita in the state from amalgamations. There is the issue of unfunded super liability—and I don't see the state government funding its super liability. There are a lot of other compulsory things. We must have compulsory community satisfaction surveys. It does not happen with state government departments. I could keep going on, but I will not. We have got a very high debt, which we inherited. We have got a program in place to actually reduce that debt. It consumes 14 per cent of our rate income in paying the principal and interest. As I said earlier, in looking at the demographics, with the ability of the community to pay for a 60 per cent rate increase on \$400 a week, there is not much joy.

CHAIR—You are going to put them up 60 per cent?

Mr Hannagan—This is a discussion I will be having with the new council. We have elections next month—we are right in the middle of the elections. We are saving this for them.

Mr SOMLYAY—We will not tell them.

Ms BURKE—I am surprised anybody is willing to.

Mr Hannagan—On council candidate nights I have actually mentioned these issues, but it is not real at this stage. We have talked about rate capping, the 20 per cent rate cap. We are now just at a level where we were at amalgamation of rates, inflation adjusted. No doubt, that 20 per cent rate cut comes straight off the roads. That was the only way, because we could not cut the services at that time. Council yesterday had a discussion—its last council meeting—regarding these services and whether we are going to be in some services where we feel there will be cost shifting in the future. Over half the candidates in the election are former preamalgamation councillors who were not around when a lot of these services, like tobacco legislation, food safety, et cetera, came in. There has been a lot of legislation come in since amalgamation. Part of their election platforms are basically presenting the view, 'We will give these services back to the state government; we are not in them. We will just walk away.' I think it is going to be an interesting time for the new council. I look forward to anything that comes out of this inquiry.

CHAIR—Yours is not the council that is splitting up. Which council is that?

Mr Hannagan—Our neighbouring shire of Delatite has been split into Benalla and Mansfield. I think that that is some of the answer—to go back to preamalgamation, back to the old days, and we know that is that is not—

CHAIR—I understand that Mansfield have to increase their rates by 15 per cent just to pay for the—

Mr Hannagan—Their rates will be going up by 48 per cent. They have gone up 16 per cent. They are going up eight, eight and eight or something like that. Overall, for the amalgamation, it will be 48 per cent.

Ms BURKE—That is actually approved and going through?

Mr Hannagan—That was part of the plan. I think the community might have different views now. They are yet to do the work that we have done on the infrastructure and the asset management planning. Ignorance is bliss.

Mr SOMLYAY—You are paying the principal and interest off your debt. Interest rates are at the lowest level they have been for 30 years. What happens if they go up? How does that affect your repayments?

Mr Hannagan—They should go up.

Mr SOMLYAY—Your rates will go up how much?

Mr Hannagan—We would have to cut something else. We just do not have the room to manoeuvre. We are at the forefront with the small rural shires in developing these systems. I will be chairing a meeting on asset management at the conference on Friday. A lot of them have not gone through this process to this level as yet. I am saying there are a lot of sleepers out there.

Mr NAIRN—Your unfunded superannuation stuff aside, what is the budget debt that the council is carrying?

Mr Hannagan—The total debt to the council at the end of this financial year will be down to \$3.8 million, bearing in mind that our total rate income is \$4½ million. In fact, this year we have got the debt below the rate income. The superannuation liability is somewhere in the order of \$1 million. The redundancy payments are somewhere in the order of \$1 million. We borrowed \$1.3 million to comply with the waste management EPA conditions on rehabilitating our tips and creating landfills. The inherited debt, I suppose, from previous councils, is the small part.

Mr NAIRN—So the \$9.9 million under the terminology ‘LUC’ is all of those things together?

Mr Hannagan—Pardon?

Mr NAIRN—The MAV says that you have an LUC, and an LUC is defined as loan liability, unfunded superannuation liability and cumulative capital spending deficit over the past four years.

Mr Hannagan—I would assume that a lot of it would also be infrastructure.

Mr NAIRN—Yes.

Mr Hannagan—We are not funding our depreciation, obviously.

Ms BURKE—So at the moment you would not be offering any extra services to the community?

Mr Hannagan—I am afraid we will have to assess that. The new council is having a really hard look at what services we are going to be in.

Ms BURKE—Are you providing HACC services?

Mr Hannagan—Yes. We are not in low-care aged services any more. We have done a transmission of business to the local hospital. We do not have a public hospital in our shire; we have three bush nursing centres. We have done a transmission of business on the aged care services, and we are currently developing the MOU to do a transmission of business on HACC as well. We are getting out of it.

Mr SOMLYAY—What is the main centre in your shire?

Mr Hannagan—Euroa. We are surrounded by Shepparton, Benalla and Seymour. We are in that V, you might say.

CHAIR—And you are right in the middle of a drought and you do not have grey hair!

Mr Hannagan—But, unlike some people, I can shoot.

Ms BURKE—You said that you are in favour of the minimum grant, but you are obviously getting more than the minimum grant. Some councils that have been here today are getting the minimum grant. From the other end, they are saying, ‘Hey, we do not want to give up a bit of our pie.’ I suppose the corollary of that is that you want to get a bit of their pie.

Mr Hannagan—Again, I suppose it is because of our size. To a large council, one per cent is a lot of money; to us, in real terms, it is not much money. As I said, a 60 per cent rate increase is only a couple of million dollars. If another council put up their rates by two per cent, that would be significant. It is just the economies of scale. We have put two submissions to the Grants Commission. One is in relation to timber bridges. We receive \$10 per square metre per annum to maintain those bridges, but the cost coming through to actually replace those timber bridges is between \$1,400 and \$1,600 per square metre. If you equate that to a 150-year life versus the fact that they last about 30 to 40 years, the numbers do not add up. We have 16 shires joining us on that submission, and we have 14 other small rural shires looking to try to increase some of the disability effects in the minimum components of the grants to take into account the

disadvantages to small rural shires with huge areas, lots of kilometres of roads and not many people. Something like 30 per cent of our rate income goes into roads.

Ms BURKE—Would you have a fair percentage of unrateable land in your neck of the woods?

Mr Hannagan—No, we do not. Unlike when I was at West Wimmera, we do not have a lot of state forests and other areas.

Ms BURKE—The Strathbogie Ranges are not in your area?

Mr Hannagan—There is not much there, no.

CHAIR—Thank you for making the effort to come along today. I think it has been extremely valuable. You have put the other end of the spectrum from what we heard this morning, and I think that is very important. The big councils in the cities are quite different in their needs and aspirations—and obviously in the level of funds they are handling—but the challenges you face are just as significant.

Resolved (on motion by **Ms Burke**, seconded by **Mr Somlyay**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.43 p.m.