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24 July 2002

Mr Trevor Rowe  
Secretary  
House of Representatives  
Standing Committee on Economics  
Finance and Public Administration  
Parliament House  
CANBERRA ACT 2600

House of representatives Standing Committee on Economics, Finance and Public Administration	
Submission No: .....	87
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Secretary: .....	Ruddell

Dear Mr Rowe

### Inquiry into Cost Shifting onto Local Government

I am pleased to forward to you the Whitehorse City Council submission to the inquiry.

The City of Whitehorse is one of Victoria's largest metropolitan municipalities. Council has around 62,300 rateable properties, an expenditure budget in 2002/2003 of \$83.4 million, including a capital works program of \$17.5 million and a workforce of around 614 equivalent full-time officers. Council provides an extensive array of services and infrastructure to meet the changing needs of a growing and ageing population.

It is Council's contention that both the Commonwealth and State Governments have over time transferred functions, responsibilities and costs onto local government. Council's own experiences demonstrate that Commonwealth and State Government funds have not kept pace with either the cost of service provision or with the demand for services.

The effects of this cost shifting have been to reduce the discretionary capacity of Council to function as an effective tier of government and to place an unreasonable cost burden on ratepayers and service users.

For further information, please contact Mr Tom Evans, General Manager Corporate Services, on 9262 6309.

Yours sincerely

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**CITY OF**



**WHITEHORSE**

**Submission to the House of Representatives Economics,  
Finance and Public Administration Committee Inquiry into  
Cost shifting onto Local Government.**

**July 2002**

## I. Introduction

The City of Whitehorse is one of Victoria's largest metropolitan municipalities. Located in Melbourne's eastern suburbs, Whitehorse is a middle-ring municipality covering 64 sq km and a population of around 145,000 people. Created in December 1994, from the amalgamation of the former cities of Box Hill and Nuanwading, Whitehorse City Council has around 62,300 rateable properties, an expenditure budget in 2002/2003 of \$83.4 million, including a capital works program of \$17.5 million and a workforce of around 614 equivalent full-time officers.

Council's roles and responsibilities are derived from the State's Local Government Act 1989 which defines the purposes of a Council as:

- (a) To provide for the peace, order and good government of its municipal district; and
- (b) To facilitate and encourage appropriate development of its municipal district in the best interests of the community; and
- (c) To provide equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively; and
- (d) To manage, improve and develop the resources of its district efficiently and effectively (s6 (1)).

The legislation is enabling in that it provides Councils with a broad mandate, for example, it defines Council's powers as being able "to do all things necessary or convenient to be done for or in connection with the performance of its functions and to enable it to achieve its purposes and objectives" (s8 (3)). The Act, while not wishing to limit this power, identifies seven functions of Councils, namely:

- (1) General public services e.g. fire prevention, animal control, collection and disposal of refuse;
- (2) Health, education, welfare and other community services, e.g. health inspection, child care, aged services
- (3) Planning and land use, including building control and housing;
- (4) Property services, such as, water, drainage, sewerage, street maintenance
- (5) Recreational and leisure services, e.g. sport, recreation, leisure, arts, parks and gardens, libraries, halls
- (6) Roads, including bridges, footpaths, traffic control and lighting and drainage; and
- (7) Any other functions relating to the peace, order and good government of the municipal district, including parking, transport, tourism, encouragement of commerce, industry and agriculture (Schedule 1).

In all, the Act lists 41 functional areas.

Whitehorse City Council sees itself as having four broad roles, namely:

- (1) Governance, including decision making, consultation, information and advocacy;
- (2) Planning, in terms of service and infrastructure provision for the future of the municipality, strategic land use planning for the economic and social development of the municipality, economic and community development initiatives to foster economic and social well being;
- (3) Service provision. Council provides over 100 discrete services to its community;
- (4) Coordination. Council recognises that it is not the only service provider or level of government operating within its boundaries. Consequently, an important role for

Council is to coordinate service provision and service planning to ensure that residents' needs are met efficiently and effectively.

Council's capacity to perform all its roles effectively requires it to have both adequate levels of resources and discretionary capacity to respond to new and emerging community needs. The experience of Whitehorse City Council over the past seven years is that its capacity to function effectively is being undermined by a transfer of costs functions and programs from Commonwealth and State Governments to local government. This transference of responsibilities occurs in three ways:

- (1) The failure of Commonwealth and State governments to maintain programmatic funding in real terms;
- (2) The withdrawal of programmatic funding by the Commonwealth government once a program has been established; and
- (3) The imposition by State Government of additional and new functions and tasks without matching resources.

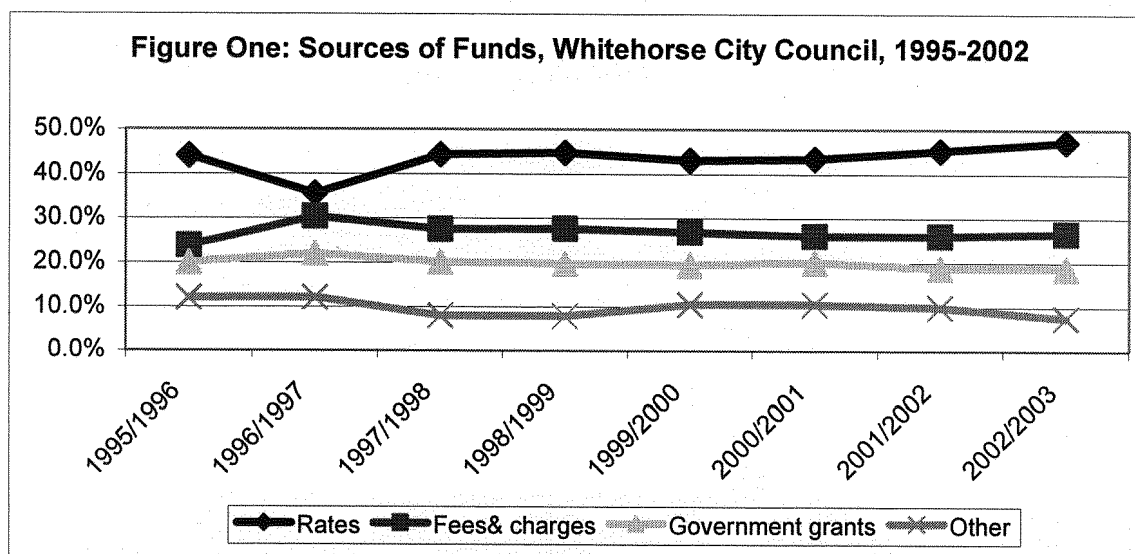
## 2. Council's Sources of Revenue

Council relies on three sources of revenue to finance the bulk of its operations, namely, municipal rates, fees and charges and government grants. The following table and chart provide trend data on Council's reliance on these income sources. It is noteworthy that between 1995/96 and 2002/03, while Council's total revenue increased by 24% from \$66.3m to \$82.4m, grants increased by only 16% from \$13.3m to \$15.4m. Council has funded increased revenue primarily from rate increases (up 33%) and increased fees and charges (up 39%).

**Table One: Whitehorse City Council- Income Sources 1995/96-2002/03 (\$m)**

	2002/ 2003	2001/ 2002	2000/ 2001	1999/ 2000	1998/ 1999	1997/ 1998	1996/ 1997 <sup>(1)</sup>	1995/ 1996
Rates	38.9	37.0	34.2	32.2	30.9	29.3	21.7	29.2
Fees & charges	21.9	21.3	20.5	20.1	19.1	18.2	18.5	15.8
Government grants	15.4	15.4	15.8	14.6	13.6	13.3	13.4	13.3
Total Revenue	82.4	81.8	78.8	74.8	69.1	66.1	61	66.3

Note (1): The decline in rates in 1996/97 was due to changes in the definition of a rating year to bring them into line with financial years. In that year Victorian Councils has a nine-month rating year.



An analysis of Council's government grants reveals that over this period that has been little change in the contribution of Commonwealth and State governments. The ratio between the two has remained relatively constant, with Commonwealth contributing on average 69% of grants and the State government 31%.

### **3. Adequacy of Government Grants**

It is the experience of the Whitehorse City Council that in the years since 1995/96, the level of government grants has not kept pace either with cost increases nor with shifts in, or increases in, demand for services. The effect of this trend has been that Council either has had to terminate or reduce the program or has had to seek funds from users and/or ratepayers to continue the program. This development is best reflected in the costs associated with Council's provision of aged care services, library services and services to families.

#### **HACC Funding**

The Home and Community Care (HACC) program was originally established as a joint Commonwealth, State and local government initiative funded on the basis of 40% from the Commonwealth, 40% from the State and 20% from local government. The importance and cost of HACC has increased steadily as the size and needs of Australia's ageing population grow.

The basis of the Victorian Government's allocation of HACC funds is the purchase of units of service (output) at a determined unit price. Since the inception of this funding model two years ago, prices have lagged behind costs. The Municipal association of Victoria (MAV) estimates that in 1999-2000 funding was between 8%-36% below Councils' delivery costs and those proposed for 2000-2001 were likewise deficient by 15% to 41%.

HACC recurrent funding through and from the Victorian Government to Local Government between 1995-1996 and 1999-2000 increased on average at less than 4% per annum; in comparison non-Local Government providers received an average annual increase of over 9%. The Victorian Government has also provided growth funds in the order of 5% per annum over recent years; however, the evidence is that the demand for services is well above this rate. In effect, Local Government's share of the total HACC pool fell from 42.4% to 37.8% in the four years to 1999-2000; ten years ago, Local Government received 49% of HACC funds.

The experience of the City of Whitehorse is represented in the Table below. With a budget in excess of \$8 million in 2001/2002, the HACC program is the single largest program in Human Services and consumes over 10% 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% to 30%, that is, from \$1.1 million in 1997-1998 to \$2.5 million in 2000-2001. The greatest increases have occurred in Home Care where Council's contribution has nearly quadrupled in four years, from \$310,000 in 1997-1998 to \$1.1 million in 2000-2001. The level of government subsidy has not kept pace either with increases in service costs or with growth in the demand for services. These increases have been funded by a combination of increases in fees and rate increases.

**Table Two: Cost of HACC Program to Whitehorse City Council**

	1997-1998	1998-1999	1999-2000	2000-2001
<b>Total Cost of HACC program</b>	\$5,100,012	\$5,637,595	\$5,514,242	\$8,137,031
<b>Total Value of Council's contribution to HACC program</b>	\$1,131,478	\$1,476,271	\$1,599,486	\$2,475,011
<b>Council's share of total costs</b>	22.2%	26.2%	29.0%	30.4%

## **Library Services**

The State Government provides recurrent public library grants worth over \$24m. Public library grant per head of population fell steadily in real terms between 1977-78 and 1995-96, and has levelled off since. However the average annual increase in grants has been around 1.6% whereas expenditure has grown by 3.5%. In the current 3-year funding agreement the Whitehorse Manningham Regional Library Corporation received an increase in funding of 2.15% for the past 3 years, whereas Whitehorse Council has increased operational funding by 3.5% and 4% in each of the past 2 years. Effectively, the public library grant is now worth slightly more than half the value twenty years earlier. Local Government's contribution has risen from 47% in 1976-77 to 67% in 2000-2001.

Locally, the Whitehorse and Manningham Councils contributed two-thirds of the Regional Library Corporation's recurrent income (\$2 million and \$1.3 million respectively) in 2001-2002 while the Victorian Government contribution (\$1.2 million) equalled 24%. Furthermore, both Councils fund the whole of the library's capital expenditure – Whitehorse contributed \$689,265 in 2002-2003 and Manningham \$459,509.

An issue for Libraries is one of funding not keeping pace with inflation and of the increasing use of small one off grants in place of real and meaningful increases in the operational core funding. In recent years the costs associated with communication for libraries' technology networks is a growing concern as communication links need to be continually upgraded to support the amount of traffic, that is, the growth in demand for electronic services, libraries now carry.

## **Services to Families**

Council's maternal and child health (MCH) service is an important service to families. Through the efforts of Council's MCH nurses, the City of Whitehorse has consistently had one of the highest immunisation rates for young children in Victoria, and we believe among the best in Australia. As at 30 June 2002, immunisation rate in the municipality was 93.27% among children aged 12-15 months and 87.72% among children aged 24-27 months.

The total pool of funds for Maternal and Child Health (MCH) Services in Victoria is currently \$15.164m. There has been no adjustment to the basis of core funding over recent years. Funding of the target population has been at the same rate per nurse hour since 1997-98 and the pool for disability factors has been held constant. In effect, there has been a real decline in the value of the Victorian Government grant.

At Whitehorse, Council's contribution to the costs of the MCH program has increased from 55.3% of total expenditure in 1998-1999 to 63.7% in 2001-2002, an increase of nearly \$270,000 over four years. During those four years, the total cost of the program has risen

substantially from \$853,000 to \$1,155,000 while the value of the Victorian Government grant has increased by only \$41,000 (from \$381,000 to \$422,000). In effect Council has nearly doubled its contribution to the program. Council has funded these increases through its rate income.

Government has not altered the scope or features of the program despite rapidly changing community needs. As a consequence Councils are required to modify their service delivery arrangements to ensure that the program is more responsive to the community. Whitehorse City Council has taken the initiative to move nurses from 12 small stand-alone M&CH centres to six multi-service family centres that provide a mix of MCH and other family services. Additionally, Council provides supplementary consultations over and above the ten funded by the State Government for those families that are in need of additional support and advice, many of whom are working mothers experiencing increasing pressure and stress in balancing the demands of raising young children with those generated by the work commitments. Furthermore, Council provides a lactation nurse to assist mothers with breastfeeding difficulties; conducts a sleep-parenting program; and employs an assistant to ensure that age specific hearing checks are conducted for all children. These initiatives are primarily funded from Council's rates income, although some services attract user fees.

#### **4. Impact of Commonwealth Policy Shifts**

A significant concern for Council has been the impact on its resources and the local community of significant shifts in Commonwealth policy. The local effect of national policy changes is best reflected in Council's experiences with the provision of long day care services.

The Commonwealth had been a major source of funding for the provision of long day care in local government. Victorian Councils were originally encouraged by the Commonwealth Government to provide long day care services. The Commonwealth provided both an annual operational subsidy and invested significant public resources in contributing to the cost of building child care centres. Whitehorse City Council's predecessors, responding to Commonwealth incentives, built seven childcare centres, using Commonwealth, State and local resources.

As a result of policy changes by the Commonwealth Government, Whitehorse City Council lost over \$235,000 annually when the Commonwealth Government ceased its provision of an operational subsidy in 1998. Nonetheless, Council's operating costs have continued to rise by around 4% per year. The net effect has been twofold. Firstly, the total cost burden of the service has been shifted on to Council and to parents. Since 1998, for example, there has been at the City of Whitehorse a steady increase in fees to parents, from a weekly full time fee of \$177 in 1998 to \$205 in 2002 (a 16% increase over four years). Secondly, there has been a reduction in Council's overall service delivery with the closure of three (out of Council's eight) long day care centres, a reduction of 96 places equal to a one-third reduction in the overall number of childcare places offered by the Council. Despite the growth of private childcare centres in the municipality, at the end of June 2002 Council had a waiting list of 450 children!

Whitehorse City Council now operates a range of community service programs that were initially introduced and heavily subsidised by either Commonwealth or State governments.

Council is now the major funding source for these programs, relying on ratepayers and users to meet the shortfall in government grants.

## **5. New functions**

There seems to be a tendency at other spheres of government to assume that local government can absorb additional duties and functions with minimal impact on their work or their resource base. Sometimes, these assumptions are implicit in legislative changes that impose additional demands on Council resources and other times they are attitudes reflected in policies or inaction by other levels of government.

Legislative changes have the greatest impact on Council's operations where Council has a statutory responsibility to administer aspects of the legislation, for example, in planning, building and public health. In recent years, the State Government has introduced significant changes to such legislation without providing any resources to local government for its administration. For example, the roles and responsibilities of Municipal Building surveyors has 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, inspection of smoke detectors. All of these services are expected to be provided; yet Council is required to meet these costs or charge a fee for this 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. The demands on the 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 (BCC). The BCC is no longer dealing with complaints about private building surveyors and instead is now referring all such complaints to Councils, without transferring the matching resource. In a similar vein, the BCC has advised Councils that due to the steep rise in public liability insurance, an increasing number of private building surveyors will no longer be issuing building permits and that Councils can therefore expect a substantial increase in their workloads. For Whitehorse City Council, this increase in demand to issue building permits can only be met by reducing the resources allocated to statutory functions such as swimming pool safety, essential service inspections and smoke detector inspections, or to employ additional staff, at a cost to ratepayers.

The net result of such legislative, policy and administrative changes have a significant impact on Council's operations. In its 2002/2003 budget, for example, Council has budgeted to employ an additional administrative officer in the Planning Department to enable the Council to improve its service provision in this area. Councils continue to be placed in a situation where they are required to find additional resources through rates and from fees to deliver services mandated but not funded by the State Government.



## 6. Conclusion: Impact on Council's Operations

It is the contention of Whitehorse City Council that cost shifting to local government takes place through the failure of both Commonwealth and State governments to maintain programmatic funding in real terms and the failure of these governments to respond to changing community needs. This failure to respond is manifest in significant policy shifts by Commonwealth and State governments that leave Council with the task of continued service provision; and through the State Government's imposition of additional or modified roles and responsibilities without matching funding.

As a consequence of these developments, Council has had to allocate an increasing proportion of its resources to maintain and where appropriate grow these services. The net result is that operationally Council's capacity, responsiveness and flexibility is being seriously jeopardised. Cost shifting has had a deleterious effect on the capacity of local government to respond to the changing needs of its community as an increasing proportion of its resources are tied in long-term delivery of statutory services and community service programs.

Whitehorse City Council recognises that good governance requires Council not only to have sufficient resources to be able to deliver fundamental services required by the community but also to have the capacity to foster social and economic growth at the local level. The latter role includes activities such as, funding local community groups, supporting local self-help groups, community, cultural and recreational organisations with accommodation, information, advice and assistance in conducting their activities. This role is being seriously under funded as Council's resources are used to maintain existing, formerly government funded, services or to enforce existing legislation.

Significantly, cost shifting has imposed State and Commonwealth priorities onto local Councils thereby significantly reducing the capacity of local Councils to fund local priorities. This discretionary capacity of Whitehorse City Council has steadily diminished as the Commonwealth and State governments pursue a planned and persistent abdication of their roles and responsibilities, while imposing new burdens on local government. Increasingly, Commonwealth and State governments treat local government as a delivery arm for their policies and programs, yet fail to acknowledge the real costs of this service. This attitude reflects a demonstrable lack of appreciation of the governance role of local government and its responsibilities to develop its local district, and a callous disregard of the financial burden placed on ratepayers and users.

Councils need to maintain a discretionary capacity to enable them to meet their community's expectations of service and support. If this capacity is not to be eroded, both Commonwealth and State governments must recognise the resource implications of their policies and actions and must be prepared to maintain this financial commitment in real and meaningful ways. Otherwise, the capacity of local government to function effectively as a level of government will be jeopardised and the opportunities that local governments provide for the pursuit of local, democratic and community development will be lost.