

DC:GM

9 August 2002

Mr David Hawker MP  
Chairman  
House Economics Committee  
Parliament House  
CANBERRA ACT 2600

Dear Mr Hawker

**FEDERAL COST SHIFTING INQUIRY TO LOCAL GOVERNMENT**

I am pleased to provide a response to the Commonwealth Government's inquiry into cost shifting to Local Government.

In addition to the written submission, I would be pleased to appear before the Committee to provide a more comprehensive verbal presentation in support of my submission.

Yours sincerely

DAVID CONRAN  
Chief Executive Officer

## **LOCAL GOVERNMENT AND COST SHIFTING**

On behalf of Monash City Council, I am pleased to make a submission to the Inquiry into Local Government and Cost Shifting.

### **Role of Local Government**

Over a considerable period, the role of Local Government in Victoria in regard to the provision of services and infrastructure has changed and is continuing to change. Local Government's are now responsible for a range of functions not traditionally fulfilled by Local Councils nor specifically envisaged by the Victorian Local Government Act. In fact, Council is now perceived by its community to be responsible for functions, even though it is providing these services on a delivery agency basis on behalf of other levels of Government, e.g. Home Care Services. Comments such as "I pay my rates, why can't I get the home care services I am eligible to receive".

Our community also expects Council to undertake roles not fulfilled by other levels of Government. Accordingly, Council is becoming increasingly involved in services or contributing funding to other agencies to provide services, particularly human and social services being demanded by the community, e.g. youth services, family counselling, drug, alcohol and gambling programs.

In addition, Council's functions have increased as a result of changed legislation or through delegation from State authorities. Examples are the added roles and responsibilities of Council resulting from changes to Essential Services Legislation, Building Act and Food Act and delegated responsibilities from the Environment Protection Authority, the Building Commission and VicRoads.

Over time, there has also been a shift of responsibility to Council through evolvement of Government "policy". An example of this is the insistence by the Victorian Government that Council is responsible for the provision of capital funding of pre-schools.

The responsibility for implementing and funding a number of Commonwealth and State environmental policy initiatives have also fallen on local government, e.g. recycling and waste minimisation.

Since 1994/95 Local Government has experienced a significant period of reform. A crucial element to that reform has been the development of long term financial plans for the provision of services and infrastructure maintenance and renewal. It is fundamental to the success of long term planning that those funding opportunities and service imposts from other tiers of government are recognised and accounted for in a transparent way. This is particularly important as community expectations for service delivery and infrastructure renewal does not diminish when source or seed funding is either withdrawn or fails to keep pace with demand for service and cost imperatives over time.

Victorian local government has demonstrated very strongly since 1994/95 in response to CCT and Best Value legislation that its service provision costs are continually evaluated and responsive to competitive practice and value for money.

A summary listing of additional functions of Council, together with financial impacts is attached.

## **Funding Arrangements**

Monash City Council's revenue is comprised of:

Rates	56%
Fees & Charges	18%
Government Grants and Contributions	
- FAG	5%
- Other	18%
Other	3%

## **Government Grants**

Although the level of FAG's has been maintained in real terms in recent years, there has been no recognition of the true cost increase being experienced by Councils in providing infrastructure and delivering services, nor has there been any taxation review resulting from increased economic growth passed on to Councils. Council was shocked and disappointed by the recent reduction of 60% (\$600,000) in FAG roads funding allocated to Monash, which is a prime example of the variable and uncertain nature of Government funding.

Both Commonwealth and Victorian Government subsidies and payments for services provided by Council have reduced in real terms and have not kept pace with increasing demand for services, changes in community expectations regarding the quality of services and increases in the true cost of providing those services. In many cases, the proportion of funding provided by Council for a wide range of functions has increased significantly compared with that provided by State and Commonwealth Governments. Some examples are: Home and Community Care, Meals-on-Wheels, Maternal and Child Health services, Aged Residential services and Libraries.

## **Fees & Charges**

Growth in Council income from fees, service and other charges is limited. Many of these fees and charges are set by other levels of Government and the charge is nowhere near representative of the cost of providing those services, yet it would be realistic to pursue higher levels of cost recovery in these areas, e.g. fees for town planning applications. Although Council seeks to maximise revenue from services and charges, it is not realistic to expect Council to fully recover the cost of many of its services as the community expects that Council will subsidise a large range of services, e.g. sporting facilities, cultural facilities, recreation reserves.

## **Rate Revenue**

Since 1994/95, Monash City Council rates have decreased by 20% in real terms. (Total rate revenue in 1994/95 was \$42.7 m and in 2001/02 was \$42.4 m.) This rate reduction has been achieved while responding to an increasing demand for services and maintaining a reasonable level of capital works expenditure on infrastructure renewal. Proceeds from asset sales have been used to retire debt (\$24m) and to fund new capital works.

Rate revenue has also been constrained by direction from the Victorian Government to reduce rates, cap rates and over recent years to keep rate increases to a minimum.

## **Funding Issues**

There would appear to be three fundamental funding issues which should be addressed by this Inquiry, viz:

- a. the lack of natural growth in local government tax revenue in line with economic growth
- b. the services and functions which should be funded through property tax (Council rates)
- c. the complexity of the mechanisms in place to provide funding from Commonwealth and State Government to Councils.

## **Growth Taxes**

Over the last decade, the City of Monash has been experiencing significant economic development in its business and residential sectors, however unlike the tax revenue increases experienced by the State and Commonwealth Governments as a result of economic growth, e.g. GST, income tax, there has been no natural growth in Council's tax base (rates).

Although property values are increasing (62% increase since 1994/95), Council has not received any benefit through increased rate revenue.

In order to constrain total rate revenue in line with Government policy, and to ameliorate negative community perceptions of high annual rate rises, Council has responded by decreasing the rate in the dollar levied on properties. Since 1994/95, the rate in the dollar has decreased by 39%. Yet Council activities and services have a significant influence on property values in local areas.

On the other hand, State Government revenues from property based taxes such as land tax and stamp duty have increased significantly. There has been no reduction in these State Government tax rates and consequently additional funding is available to expand services and invest in public assets.

It is appropriate that a mechanism be determined that provides Council with access to tax revenue which fluctuates in line with economic activity, e.g. local government sharing of GST revenue or linking total rate revenue to movements in property values.

## **Services Funded from Council Rates**

It would appear that the property tax (Council rates) in Victoria now funds infrastructure and a number of services not traditionally funded from rates. Examples of these have been provided earlier and are on the attached listing. These additional responsibilities relate largely to human, social and environmental services. It is also clear that there is confusion in the community about what public services the different forms of taxation are meant to fund.

Given that Council Rates are an integral part of a total Australian taxation system to fund a wide range of public services and infrastructure, it could be argued that it is irrelevant to the community which element of the total tax system funds specific functions and services.

However, such a proposition ignores the basic principle of accountability of Governments to their communities. Our community should be very well informed of respective Government's responsibilities so that each level of Government can be held accountable for their decisions, policies and actions.

### **Complexity of Government Funding Processes**

Funding mechanisms in place for those programs and services delivered by Councils on behalf of State and Commonwealth Governments are overly complex. They are confusing, in terms of relative responsibility between the State and Commonwealth (maybe to the advantage of those Governments). In addition, there is no certainty regarding future years' funding, there is duplication of processes for similar services and there are onerous accountability and reporting processes which appear to add little, other than bureaucratic activity.

In determining accountability and reporting mechanisms, it should be recognised that Councils are a level of Government and are subject to stringent public sector accountability processes. It is recognised that some accountability mechanisms are necessary, but they should be simplified.

In addition, funding is often provided through a myriad of small grants through a number of different Government programs and the amount of funding provided does not fully account for the total cost of providing the service. In some cases, it is not worth the administrative effort and cost to apply and subsequently account for small funding grants.

### **Recommendations**

It is recommended that:

- a. The increasing roles and responsibilities in regard to services provided by Council to its community be formally recognised.
- b. The financial impact on Council in undertaking additional services be acknowledged.
- c. A taxation methodology be developed for Local Government to provide for natural taxation funding growth to enable Councils to respond to increasing service demands of their communities, e.g. share of GST, linking rate revenue to property values.
- d. That the services and functions to be funded from Council Rates be determined in the context of the total Australian taxation system and well defined.
- e. That for services and programs delivered by Local Government on behalf of State and Commonwealth Governments
  - funding mechanisms are made less complex and are clear regarding program funding responsibility
  - accountability and reporting arrangements are simplified
  - funding levels recognise the full costs of service provision and are increased commensurate with increasing cost and levels of demand

- duplication of programs for similar services should be avoided

I would be happy to make a verbal presentation to the Inquiry in support of this submission.

Yours sincerely

DAVID CONRAN  
Chief Executive Officer

**ATTACHMENT**

**MONASH CITY COUNCIL**

<b>SERVICE</b>	<b>ADDITIONAL COST TO COUNCIL</b>
<b>Public Transport</b> Ongoing maintenance and improvements of infrastructure at bus stops on PTC bus routes	\$110,000 pa.
<b>Street Lighting on main roads</b> Newly defined main roads not included in Vic Roads 2/3 <sup>rd</sup> cost sharing model – street lighting responsibility remains with Council	\$100,000 pa
<b>Tree Clearance near powerlines</b> Compliance Cost under the 1998 Electrical Safety Act	\$50,000 pa
<b>Emergency Response Service</b> SES inadequately funded. Reliance on Council for support although calls on service not restricted to municipality. Capital costs to provide facilities to meet storage and OH&S considerations	\$55,000 pa \$100,000 capital
<b>Road Safety</b> Expectation that LGA's will take on an increased role in respect of road safety and road user education. <ul style="list-style-type: none"> <li>– <b>Police Cars (+ 4 radar guns)</b> 2 cars funded by Council to meeting community expectations re community safety</li> <li>– <b>50 Km Speed Limits</b> Ongoing costs of implementation/ review /traffic management are not funded. (However local street system is Council responsibility)</li> </ul>	\$120,000 pa
<b>Essential Services Legislation</b> Cost implications for inspection of Council facilities	\$120,000+ pa
<b>Parking fines – \$50.00 maximum fee</b> No indexation for fees diminishes real value of service	Lost revenue \$80,000+ each year
<b>Building Surveyor Inspections</b> Increased roles and responsibilities for Municipal Building Surveyor as a result of legislative changes : Such as <ul style="list-style-type: none"> <li>- Essential Services Inspections: Part 11</li> <li>- Swimming Pool and Barrier Inspections</li> </ul>	\$114,000 pa
<b>Lodgement Fees</b> Request by Victorian Municipal Building Surveyors group to increase fee to \$30 for both domestic and commercial (currently only \$15 for domestic) :to cover recording keeping costs although will not meet off site storage costs	Lost revenue: \$18,000 pa
<b>Private Surveyors Complaints</b> Increase in complaints with deregulation – complaints to BCC referred in first instance to relevant Councils.	\$5,000 pa

<b>SERVICE</b>	<b>ADDITIONAL COST TO COUNCIL</b>
<p><b>School Crossings Supervision</b>  Reduced state/local government funding assumption from original 2/3-1/3 to 50:50 in 86/87.  50% govt contribution insufficient to fund formulaic standard of 400 hours per funded supervisor pa. Funding provides for less than 300 hours pa</p>	\$150,000 pa
<p><b>Statutory Planning Fees</b>  <b>Currently cover 40% of direct operating costs. More complex legislation requiring additional resources and higher level of expertise to administer</b></p>	\$700,000 pa
<p><b>EPA – Industrial Noise</b>  Inadequate provision of resources by EPA to implement Act. Rely heavily on Council resources for investigation</p>	\$5000 pa
<p><b>Food Act</b>  Increased requirements under Act not fully funded through annual registration fee.</p>	\$146,000 pa
<p><b>Youth Services</b>  <b>Increasing community expectation of services for young people</b>  Current funding levels are inadequate and not indexed</p>	\$500,000+ pa
<p><b>Social Services</b>  <b>Increasing community expectation and/or legislative requirement</b>  - Gambling  - Family Counselling  - Drug &amp; Alcohol Programs (Youth)</p>	\$140,000 pa
<p><b>Disability Discrimination Act</b>  Ongoing requirement for audits and upgrade of public infrastructure to meet legislative requirements</p>	\$250,000 pa
<p><b>Libraries</b>  Increase in operational subsidies has not kept pace with increase in costs. Government expectations that traditional library services will expand to include new services/technologies such as internet provision have not been matched with a commensurate increase in funding. Increasing capital cost to Council</p>	<b><u>\$1.2 million pa</u></b>
<p><b>Home and Community Care</b>  Allocation of HACC funds based on purchase of units of service at a determined unit cost. Unit price has not increased in line with incurred costs nor have units purchased increased in line with demand</p>	\$500,000 pa



<b>SERVICE</b>	<b>ADDITIONAL COST TO COUNCIL</b>
<b>Residential Care</b> Insufficient Commonwealth funding. - No recognition of cost impact associated with shortage of nurses. - Unfunded accreditation costs associated with increasing standards. - No return on assets.	\$900,000 pa
<b>Maternal &amp; Child Health</b> Rate per nurse hour to fund the target population has not been indexed	\$130,000 pa
<b>Family Day Care</b> Amended Govt regulations governing operation and accreditation of FDC have increased administration costs without a commensurate increase in funding	\$120,000 pa
<b>Pre Schools</b> <b>Provision and maintenance of facilities including capital expenditure to meet new regulations</b>	\$260,000 pa
<b>Landfill Levy and Waste to Landfill targets</b> - levy applied by the EPA - recycling costs associated with reducing waste to landfill to meet govt set targets	\$3,000,000 pa
<b>Local Roads Funding</b> <b>Significant reduction in funding allocation for local roads</b>	Lost Revenue \$571,000 pa
<b>Valuations</b> <b>Requirement for a revaluation every 2 years instead of 4 years</b>	\$150,000 per revaluation
<b>IT Costs</b> - Initial funding for projects such as local government on line services and “Networking the Nation”. Ongoing costs met by Council - Govt funding fails to cover IT costs associated with funded projects or legislative changes	\$45,000 pa
<b>Legislative Compliance</b> - National Competition and Competitive Neutrality Compliance - Best Value - Whistle Blowers legislation - Privacy legislation - FOI	\$160,000 pa