

Submission to the House of
Representatives Standing Committee
on Economics, Finance and Public
Administration Inquiry Into Local
Government and Cost Shifting

September 2002

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1. SUMMARY

- **Local Government's capacity is limited by its ability to raise funds. There are substantial differences in the revenue profiles of councils and their ability to generate own-source revenue.**
- **A large recurrent funding gap has been identified in Victoria. This gap comprises a significant under-spend on asset renewal. It is questionable whether this gap could, or should, be met from council rates.**
- **The gap comprises annual shortfalls recorded over a number of years. Although the annual deficiency has been reduced by substantial increases in rates, it still amounted to \$358m in 2000-01. Cost shifting is estimated to account for only \$60m.**
- **Local government has a fundamental problem with respect to funding that will not be satisfied by removing cost shifting. The viability of local government depends on addressing this problem.**
- **The problem can really only be fixed by providing local government with an increased and assured proportion of Commonwealth tax revenue distributed on a needs basis.**
- **The role of local government needs to be given formal recognition in the national structure of government with imbedded rights to national funding sources.**

2. INTRODUCTION

Key Points:

- **The financial relationship between the three levels of government in Australia is complex and local government is highly dependent on Commonwealth and State government for financial support.**
- **There is a clear need for greater Commonwealth commitment to reform of Commonwealth – local government financial relations.**

2.1 The Municipal Association of Victoria

The Municipal Association of Victoria (MAV) is the peak body for local government with a legislative responsibility to represent the 78 councils in Victoria. The purpose of the Association is to promote and support the interests of local government throughout Victoria as defined in the *Municipal Association of Victoria Act 1907*.

The MAV assists local government in achieving the highest levels of respect and recognition through its work with State and Commonwealth Governments and a wide range of interest groups. The Association is involved in developing and supporting a number of local initiatives that relate to social, cultural and economic issues.

2.2 The Inquiry and Terms of Reference

This submission is in response to the call for submissions from the House of Representatives Standing Committee on Economics, Finance and Public Administration's Inquiry into local government and cost shifting, including the Commonwealth Grants Commission's 2001 review of the *Local Government (Financial Assistance) Act 1995*.

As this submission will demonstrate, Victorian local government is dependent on revenue from the Commonwealth to enable it to continue to provide vital services and infrastructure to the community. The financial relationship between the three levels of government in Australia is incredibly complex and to make a lasting contribution the Inquiry must bear in mind the interrelatedness of the three levels of Government and the issue of revenue dependency of State and local government on the Commonwealth.

2.2 The Inquiry and Terms of Reference cont.

The MAV believes that the caveat underlining the terms of reference, that “*The Inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth*” is a disappointing and an unrealistic limitation. Any exploration of local government’s financial position must be without prejudice. To apply the notion of Commonwealth budget neutrality limits the Inquiry before it even begins.

The submission addresses each of the terms of reference before making several recommendations on the issue of local government finance.

2.3 Need for Greater Commonwealth Commitment

On 20 August 2002 the Commonwealth Minister for Local Government, Wilson Tuckey, announced the latest round of financial assistance grants (FAGS) to Victorian councils. The total pool of FAGS for Victoria in 2002-03 is \$340.38m. While the funding is welcome, it simply is not enough. The MAV’s submission will show that the rate of growth in FAGs falls well short of the requirement necessary to ensure its viability.

Our research identifies a cumulative recurrent funding shortfall for Victorian councils, for the period 1995-96 to 2000-01, of \$2.7b. In 2000-01, the gap for Victorian councils was \$358m. This finding is given weight by an independent finding supported by the Victorian Auditor-General that over the past five years renewal spending on local roads was deficient by between \$1.4b to \$2.75b. The size of the FAGS contribution would need to more than double in order to address this deficit.

The challenge for government is to develop a means by which local councils are provided with the money to address the problem because they have very limited capacity to deal with it themselves. There has been a fair degree of debate within local government about how this can be achieved. Options might include, but are not restricted to FAGs based on a proportion of income tax, GST receipts or an excise type arrangement. In any case, the quantum of funds needs to be based on an assessment of the role that local government now plays and the associated resources required.

If local government is to continue to provide necessary infrastructure and human services to local communities some reform of the general funding of local government is in order. The general funding of councils needs to take account of a funding problem that has accumulated over some time and also to grow as required. The time has passed for talking and bickering between the Commonwealth and the States. Reform is long overdue and this inquiry presents the perfect opportunity for the Commonwealth Government to address the issues of the quantum of and growth in FAGS.

3. LOCAL GOVERNMENT'S CURRENT ROLES AND RESPONSIBILITIES

Key Points:

- **Victorian local government has undergone significant reform since the mid-1990s. This includes a greater focus on service provision that is both responsive to community need and cost effective.**
- **The roles and responsibilities of the local government sector are evolving to reflect both community and government priorities.**
- **However, the reform period also highlighted that local government can still be subject to stringent control by the State.**

3.1 Local Government in Victoria

Victorian local governments have undergone significant reform since 1993. Following an intensive period of amalgamation, the number of councils was reduced from 210 to 78. The Victorian *Local Government Act 1989* provides the legislative basis from which councils operate in the State and vests power in each council to exercise any powers or functions specified in the Act or by other legislation.¹

The purposes and objectives of local government contained in the Act are wide ranging. The purpose of a council includes, but is not limited to:

- providing peace, order and good government in its municipal district;
- providing equitable and appropriate services and facilities for its community; and
- ensuring that those services and facilities are managed efficiently and effectively.

In addition, the Act goes further in providing an exhaustive list of functions of councils under Schedule 1. The functions are categorised into the following:

- general services, such as fire prevention, local emergency management and litter control;
- health, education, welfare and other community services;
- planning and land use;
- property services, including land development schemes and waste management;
- recreational and cultural services;

¹ Local Government Act 1989, s.8(1)

3.1 Local Government in Victoria cont.

- roads, including footpaths, bridges, drainage, traffic control and signs; and
- any other functions relating to the peace, order and good government of the municipal district, including transport, tourism and environment control.

In addition, to the Act, other State legislation requires councils to undertake activities in areas such as public health. The responsibilities are extensive and illustrate Victorian local government involvement well beyond the traditional perception of 'roads, rates and rubbish'.

3.2 Local government in the Federal system

Local government is the level of government closest to the people and directly provides more services to the community than any other level of government. Victorian local government has recognition as a legitimate level of government in the State Constitution and no recognition in the Commonwealth Constitution.

Lacking in adequate constitutional recognition, local government is placed in a subservient position. Local government is subject to a range of discretionary controls (and interference) that are exercised by State Government. While its roles and responsibilities are as important as the other two levels of government, local government is not treated as an equal partner in the federal system. This is reflected in the imbalance in revenue collection, where local government is reliant on redistribution from other levels of government.

3.3 Current trends in local government

In the 1990s Victorian local government was subject to a suite of reforms imposed by the State Government. The 'reform package' included:

- amalgamations;
- compulsory competitive tendering;
- a forced 20% cut in rates; and
- rate capping.

The implementation of compulsory competitive tendering (CCT) required councils to meet percentage targets for tendering of services. These targets were set by the State. CCT was introduced at a time when rate-capping was also imposed on the sector. In December 1999 the Act was amended to replace CCT with a series of Best Value principles, giving councils greater flexibility over the tendering of elements of their operations and encouraging increased community participation.

3.3 Current trends in local government cont.

The reforms forced councils to re-think how they provide services, what services they provided and the costs. Moreover, it forced councils to critically examine the scope and breadth of services they offer and to fully understand the cost of service provision in a competitive environment.

The reforms and increasing community awareness has lifted expectations, requiring councils to adapt and become more responsive to the needs of their municipality. The pressures have also increased as a result of demographic change and development. Not only are councils being asked to provide more in the way of service volumes but also in the range of services. In addition to traditional property services, they are asked and expected to shoulder an increasing provision of human services, in areas such as such as aged care, children's and family services and cultural and recreation services. In many cases this creates a problem for councils, as programs and capital spending are competing increasingly for a share of funds from a limited revenue base. However, it is our view that local government should be assured the flexibility and capacity to continue to deliver these services.

4. CURRENT FUNDING ARRANGEMENTS AND CAPACITY TO MEET OBLIGATIONS

Key Points:

- **Local government has a limited capacity to meet its service obligations. The Commonwealth, and to a lesser extent the State, do have the revenue capacity to better support local government.**
- **Local government raises revenue from its own sources, primarily property tax, but is increasingly reliant on Commonwealth and State funding for specific service provision.**
- **There is a range of important constraints on local government revenue. Property tax has a limited growth potential due to limitations related to land development and existing uses.**
- **Grants from other levels of Government are also subject to constraints. The quantum of these grants grows in line with price increases while at the same time local government's costs are growing in line with wage pressures. Overtime this has eroded the effectiveness of grants as a source of revenue while increasing the financial pressures on local government.**
- **If local government is to continue providing infrastructure and services to the community, then it must have access to a form of financial support that provides a pool of funds that grow as required. This capacity is the result of the Commonwealth having access to a taxation system built on growth through income and consumption taxes.**

4.1 Local Government Income

Within the current system local government has access to three core sources of revenue. They are:

- rates, fees, fines and charges;
- general purpose payments; and
- specific purpose payments.

Local government is heavily reliant on Commonwealth and State government for funding and the economic and financial relationship between the three levels of government is complex. The autonomy of councils is severely restricted as the contributions from the Commonwealth and State are subject to discretionary decisions beyond local government's control and influence.

4.1 Local Government Income cont.

The Commonwealth Government provides direct financial assistance grants (FAGS) to local government through the *Local Government (Financial Assistance) Act 1995*. A range of specific purpose grants are provided to councils from the Commonwealth and State which target areas including home and community care (HACC), libraries, maternal and child health (M&CHS), pre-schools and environment programs.

In 2000-01, recurrent specific purpose funding from the Commonwealth and State was worth an estimated \$315 million. In 2000-01 over 75% of current specific purpose funding was either directly funded by, or had its distribution determined by the State Government.

Table 1 illustrates the movement in rates, fees, fines and charges when compared with movements in general purpose payments and specific purpose payments over the period from 1995-96 to 2000-01. These rises equate to a real increase of 3.6% per annum following the compulsory rate cap instituted by the State Government in 1995-96.

Table 1: Victorian Local Government Revenue – 2000-01 Prices

Real \$m	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	Average Annual Increase
Rates, Fees, Fines & Charges	1,859.4 (74%)	1,910.3 (76%)	2,024.2 (78%)	2,114.5 (78%)	2,209.6 (79%)	2,216.7 (78%)	3.6%
General Purpose Payments	298.5 (12%)	306.7 (12%)	307.2 (12%)	310.6 (11%)	310.3 (11%)	311.1 (11%)	0.8%
Recurrent Specific Purpose Payments	340.9 (14%)	304.7 (12%)	272.5 (10%)	275.6 (10%)	275.1 (10%)	314.9 (11%)	-1.6%
Total	2,498.8	2,521.8	2,603.9	2,700.6	2,795.0	2,842.7	

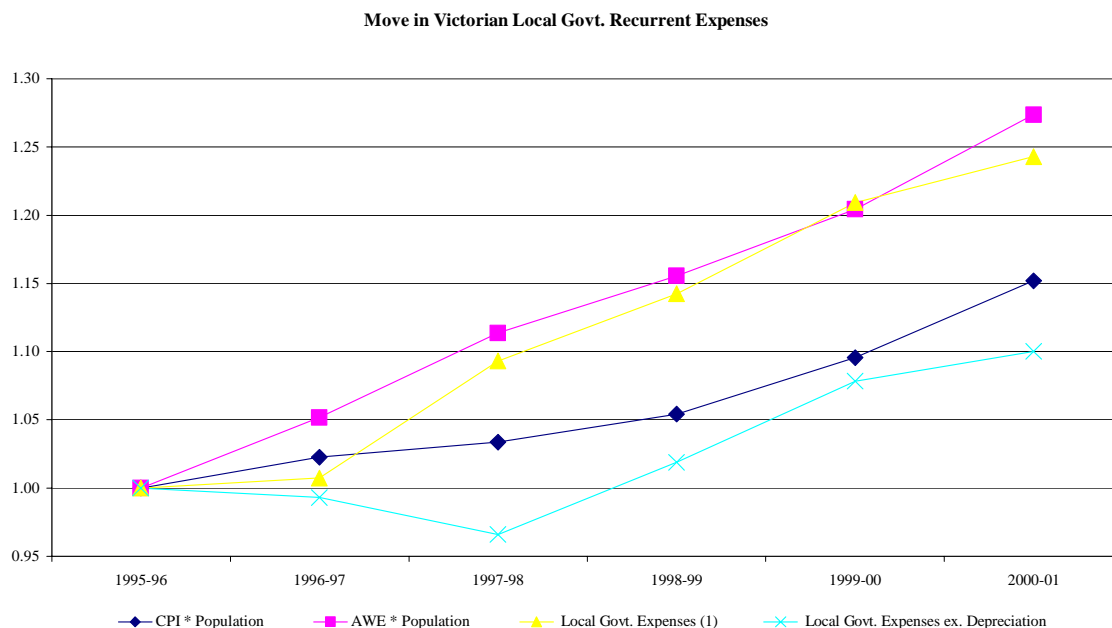
Source: Victorian Grants Commission returns

4.2 Pressures on Local Government Income

Over recent years our data show a greater increase in Victorian local government recurrent expenses than the combined impact of growth in population and general prices. The rate of increase in Victorian local government recurrent expenses more closely reflects the combined impact of growth in population and average weekly earnings, as shown in *Figure 1*.

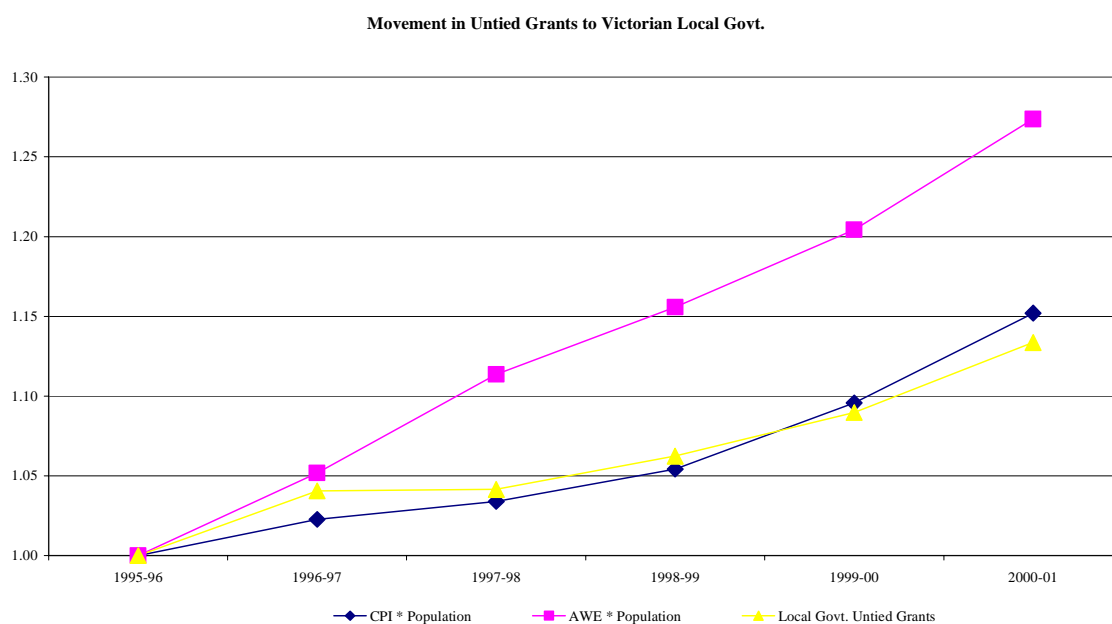
4.2 Pressures on Local Government Income cont.

Figure 1:



Federal and State Government funding programs use escalation factors based on CPI, and their own forecasts expect wages to grow faster than prices. Victorian councils will be placed under further pressure to raise own-source income or restrict services, as illustrated in **Figure 2**, as long as funding levels and escalation factors are not properly addressed.

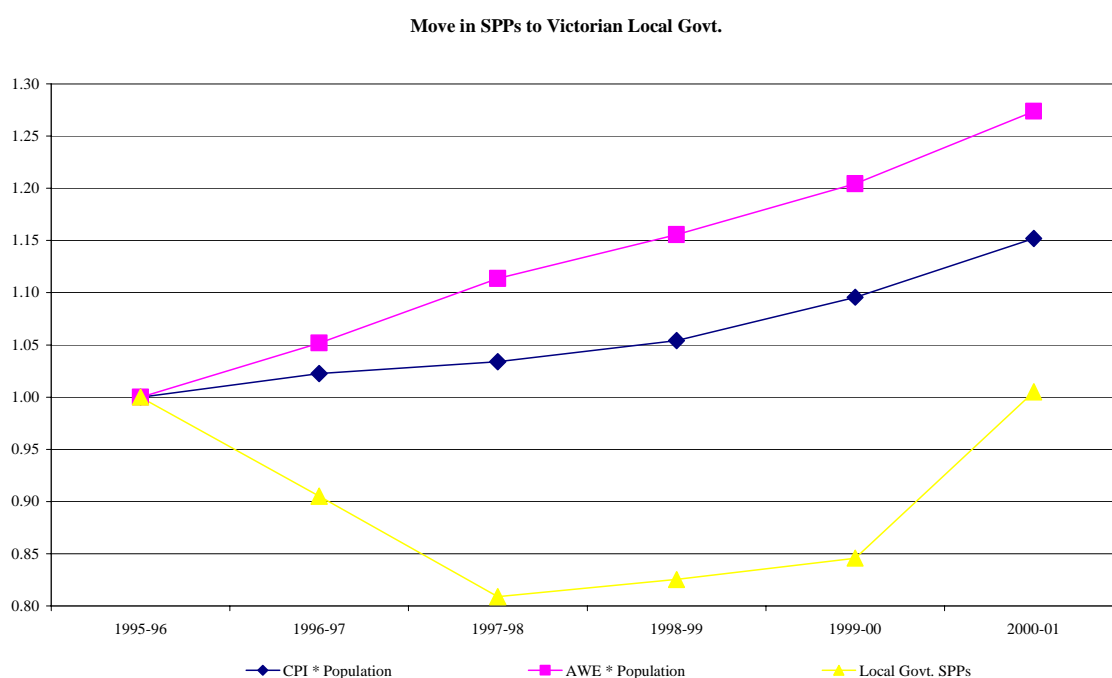
Figure 2



4.2 Pressures on Local Government Income cont.

Figure 3 shows that Commonwealth untied grants have at least been tracking the increase in population and prices. The same cannot be said for specific purpose grants received by Victorian councils. Even accounting for some funding transfers (mainly Commonwealth child care funding made direct to parents through the taxation system rather than to providers such as councils) there has been a substantial real reduction in specific purpose funding received by Victorian councils. This leads to a range of specific pressures on local government income.

Figure 3:



In real terms (2000-01 prices), between 1995-96 and 2000-01, Commonwealth untied grants to Victorian local government increased by \$12.6m and specific purpose grants from State and Commonwealth sources decreased by \$26.0m – an overall reduction of \$13.4m in recurrent grant income. Over the same period the recurrent expenses reported by Victorian local government increased by \$425.6 m (excluding asset depreciation by \$42.8m).

4.2 Pressures on Local Government Income cont.

Figure 4:

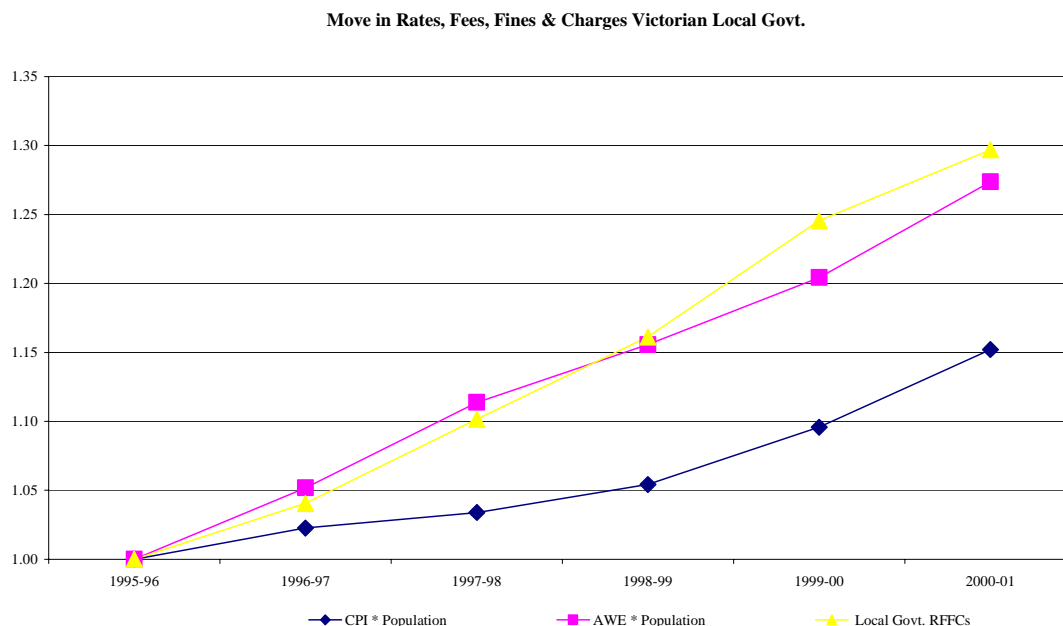
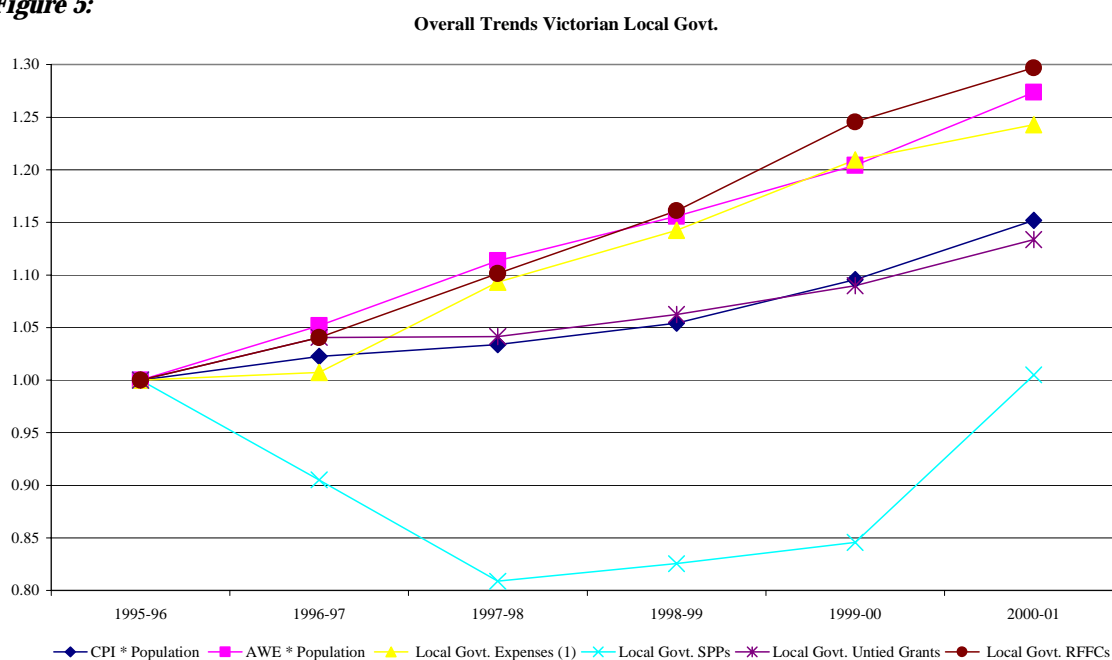


Figure 4 indicates that revenue collected from rates, fines, fees and charges has increased at a slightly faster rate than the combined growth in population and average weekly earnings. This has occurred for two reasons - to offset real declines in total grants and in an attempt to address inadequate spending on infrastructure renewal. Between 1995-96 and 2000-01 rates increased in real terms by \$221.9m and fines, fees and charges by \$135.4m.

Figure 5, illustrates movements across the three core revenue sources and local government expenses.

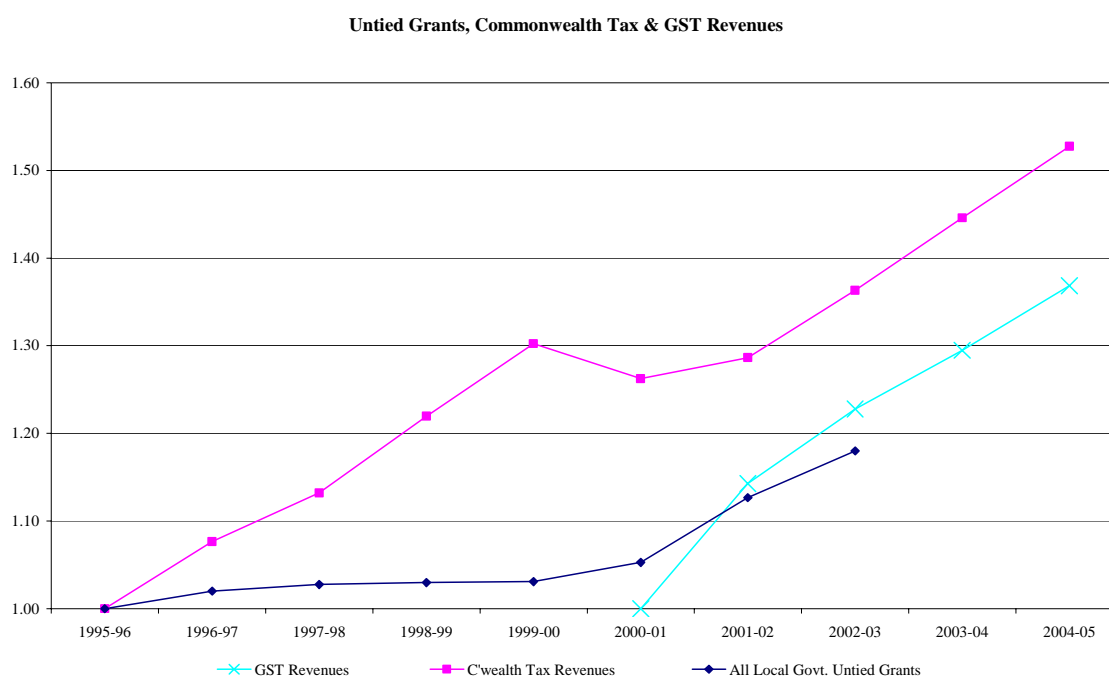
Figure 5:



4.2 Pressures on Local Government Income cont.

Commonwealth estimates and projections for Commonwealth taxes (exclusive of GST) and GST revenues (collected by the Commonwealth on behalf of and paid to the States) are expected to grow more quickly than untied grants to local government. This is shown in **Figure 6**.

Figure 6:



Overall, there is a clear relationship between the rate of increase in Victorian local government's expenditure, own-source revenue and the movement in average weekly earnings. However, it is not possible for Victorian councils to increase own-source revenues at a rate that will allow it to continue to provide existing levels of service and to appropriately manage assets.

4.3 Deficiencies of current funding arrangements

Unlike Commonwealth and State taxation, local government's property tax system has limited growth potential. There are a numerous constraints that influence land development, which ultimately determines the base that generates council rates.

More importantly, Commonwealth and State taxes are more closely aligned to capacity to pay than property taxes. The Commonwealth levies taxes on the income of individuals, businesses and non-residents, goods and services (GST), fringe benefits and superannuation. The States receive the net GST revenues collected by the Commonwealth and also have access to payroll taxes, stamp duties, land taxes and taxes on gambling and vehicle use.

Property taxes do not recognise the situation where ratepayers are asset rich and cash poor. In these cases ratepayers may have considerable property, often the family home, but have a low level of disposable income - a good example being aged pensioners. Taxes on income and consumption are much more reflective of capacity to pay as tax rates are based on the level of income. An added constraint is that local government rates are highly visible. Any significant movement in the amount of rates is open to criticism, making them subject to political pressure. On the other hand, income and consumption taxes that are being paid continuously by individuals are much less controversial.

There are also substantial differences in the revenue profiles of councils. For example, not all councils have the same access to revenues from sources such as parking and contributions. Councils also have little or no discretion over a range of charges and fees that are set by state legislation, regulation or in funding agreements. This ranges from those that are set by statutory regulation such as planning and building permits and fees, and others that form part of funding agreements, such as those for aged services.

The MAV also believes that there is a fundamental deficiency in the structure of untied and specific purpose payments made to local government. While these programs provide support to local government, they simply have not recognised adequately the costs of service provision, the pace of cost increases and the mismatch between a property taxation system and what it is being asked to deliver. While local government has limited capacity to meet service obligations, the Commonwealth, and to a lesser degree the Victorian State Government, have the capacity to better support local government.

Table 2 shows the breakdown of tax revenue raised by the levels of government in Australia. It demonstrates the differential nature of government revenue raising. The growth in Commonwealth and State taxes is underpinned by access to income tax, consumption and other taxes.

4.3 Deficiencies of current funding arrangements cont.

Across a nine year period the tax revenue of Victorian councils experienced average annual negative growth of 1.1% and over the same period the Commonwealth's tax take grew by 5.0% annually and Victoria's state tax grew by 4.0% annually.

Following forced council amalgamations, a decision was taken by the State Government in the mid-1990s to impose a compulsory rate reduction of 20% and then to cap rate increases. This was a poignant illustration of the legislative control that can be exerted by state governments and it severely impacted council revenues. The rate capping decision was the result of political expediency rather than any real understanding of the economic and financial pressures affecting local government. It created long-term problems for councils and the community, particularly through its contribution to the infrastructure spending gap. Commonwealth and state governments are not subject to this type of control.

Table 2: Total Tax Revenue in Real Terms (2000-01 Prices)

Taxes (real \$m in 2000-01 prices)	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01 (a)	Average Annual Growth
Commonwealth	104,249	108,325	117,844	124,205	132,586	139,801	148,450	158,252	153,973	5.0%
All States	27,470	30,054	30,551	31,626	33,613	35,050	37,535	39,233	39,224	4.6%
Victoria	7,392	8,250	8,417	9,047	9,579	9,163	9,787	10,084	10,092	4.0%
All Local Government	5,540	5,609	5,518	5,596	5,810	6,053	6,072	6,239	6,388	1.8%
Victorian Local Government	1,680	1,678	1,522	1,310	1,301	1,354	1,416	1,480	1,543	-1.1%
All Government	137,259	143,987	153,913	161,427	172,009	180,904	192,057	203,724	199,586	4.8%

(a) Includes only the tax forgone element of the GST revenues remitted by Commonwealth to the States in States figures

Source: ABS – taxation revenue. Inflator used is CPI for related capital city and weighted average for all capital cities for the Commonwealth. Excludes GST spike in 2000-01.

When viewed in terms of the total revenue collected by each tier of government, it is clear that only the Commonwealth and State have the ability to provide local government with the necessary financial assistance to deal with growing expenditure pressures. This data reinforces the point that local government does not possess the taxing capacity to meet spending requirements.

4.4 Alternative funding sources and possible solutions

The MAV believes that any discussion of alternative sources or other opportunities for the funding of local government obscures the fundamental issue - the quantum of funds available from both Commonwealth and State governments for local government. Restrictions on local government's income are not easily addressed without major reform of Australia's taxation and inter-governmental financial relations. The simpler solution is to increase the quantum of funds provided to local government.

The most appropriate means of providing these funds is the existing Financial Assistance Grants (FAGS) process. The FAGS system is capable of responding in a sensitive manner to the differing local government sectors in each state/territory and it allows for the relative needs of each local government sector to be addressed. The major failing of the system to date has been the size of the national funding pool. The MAV argues that introducing a growth factor to the FAGS program that will address the accumulated and recurrent funding deficiency should be dealt with as a matter of urgency.

The challenge is to develop a means of providing local government with the required growth in the quantum of funding. There are a number of arrangements that might be explored as a source of growth for FAGS and there has been a fair degree of debate within local government about how this can be achieved. Options might include, but are not restricted to a proportion of income tax, GST receipts or an excise type arrangement.

5. LOCAL GOVERNMENT EXPENDITURE & COST SHIFTING

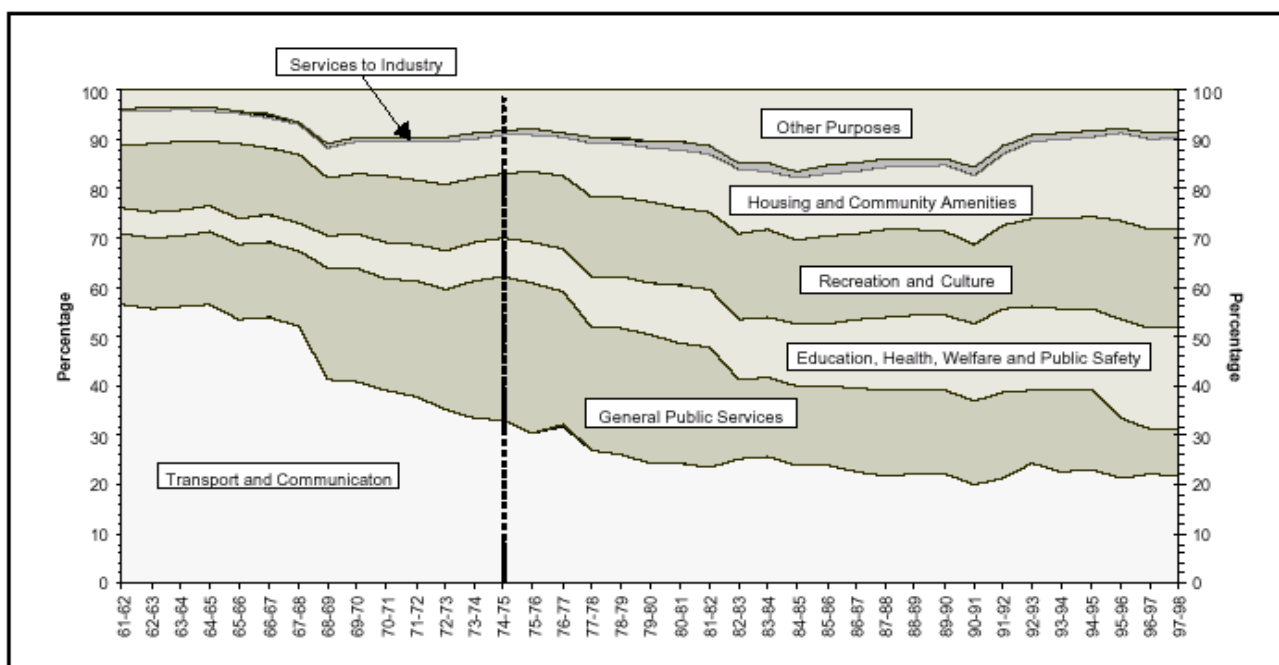
Key Points:

- **Victorian councils are playing an increasing role in the provision of human services to local communities. As a result, they are exposed to cost shifting.**
- **Cost shifting can largely be attributed to the failure of government programs to provide realistic indexation based on the cost drivers for these services, primarily wages.**

5.1 Trends in Local Government Expenses in Victoria

The long-term trends for local government expenditure highlight a changing pattern as shown in **Figure 7**. It shows a decreasing share for infrastructure spending (Transport and Communications) while the share of human services has been growing.

Figure 7: Victorian Local Government Expenditure Trends



Source: Unpublished ABS Government Finance Statistics.

5.1 Trends in Local Government Expenses in Victoria cont.

Table 3 shows the size of the expenses incurred by Victorian local government over the period of 1995-96 to 2000-01. Expenses related to most of the major functions increased. The incidence of depreciation in local roads and bridges that accounts for around 40% of total depreciation is apparent.

Table 3: Major Local Government Expenses by Function

2000-01 \$m	Total Expenses 1995-96	Total Expenses less Depreciation 1995-96	Total Expenses 2000-01	Total Expenses less Depreciation 2000-01	Total Expenses Average Annual Increase	Total Expenses less Depn. Average Annual Increase
Local Roads & Bridges	251.6	204.5	486.1	224.9	14.1%	1.9%
Administration	383.8	328.2	377.0	269.9	-0.4%	-3.8%
Aged & Disabled	204.4	199.8	268.1	255.0	5.6%	5.0%
Sanitation	207.3	202.5	262.1	250.7	4.8%	4.4%
Parks, Gardens & Reserves	155.3	149.4	195.5	176.1	4.7%	3.3%
Planning & Development	113.3	111.2	147.5	141.0	5.4%	4.9%
Sports Complexes & Facilities	136.4	122.7	139.9	117.8	0.5%	-0.8%
Play Centres, Child Care	156.2	153.1	133.9	130.7	-3.0%	-3.1%
Libraries	105.7	96.9	104.6	93.8	-0.2%	-0.7%

Source: VGC returns

NB – Aged and Disabled excludes aged and disabled housing.

5.2 Statutory and Non Statutory Cost Shifting

Through the Victorian Grants Commission, untied FAGS provided to Victorian councils will total \$339m in 2002-03. In addition Victorian councils will also receive direct funding from the Commonwealth expected to total \$89m (\$30m aged & disabled, \$17m children's services and \$42m roads to recovery). The Commonwealth also provides specific purpose payments via the states and one of its major programs is HACC (Home and Community Care Services). In Victoria, HACC is jointly funded by all three levels of government.

Councils are also recipients of funding provided solely by the State Government. This includes funding for services such as public libraries, maternal and child health, pre-schools, State Blackspot Roads funding, school crossing supervision and beach cleaning.

5.2 Statutory and Non Statutory Cost Shifting cont.

Table 4: Major Recurrent Funding Received by Victorian Councils (\$m)

Program	Source	2000-01	2001-02	2002-03
Untied Grants (GPG & Local Roads)	C'wealth	311.1	324.2	338.9
CACPS	C'wealth	<i>6.0</i>	<i>6.5</i>	7.0
Other Aged & Disabled	C'wealth	<i>21.5</i>	<i>24.0</i>	22.5
FDC Operational Subsidy	C'wealth	<i>16.4</i>	<i>16.9</i>	17.4
Roads to Recovery	C'wealth	31.4	62.6	78.2
Home & Community Care	C'wealth & Victorian State	102.3	<i>111.5</i>	<i>117.0</i>
Public Libraries	Victorian State	24.2	24.6	25.0
Maternal & Child Health (Core Service)	Victorian State	14.5	14.5	na
Pre-Schools	Victorian State	47.2	na	na
School Crossing Supervision	Victorian State	5.5	6.2	na
Other#	Predominantly Victorian State	46.0	na	na
Total		626.0	na	na

Notes:

Italicised figures rough estimates

#Other includes C'wealth Blackspot, State Blackspot, State Better Roads Programs and other

It is in these areas of specific purpose payments for programs that local government experiences the majority of “cost shifting”. There are a number of identifiable reasons for the broader phenomenon that is labelled cost shifting. The Commonwealth Grants Commission review of June 2001 lists a range of trends that can be identified as increasing the responsibilities on and associated costs faced by local government. Of particular concern for Victorian councils are:

- devolution – where local government is given a responsibility for new functions;
- “raising the bar” – where the complexity or standard of a function/service is increased by another level of government; and
- “cost shifting” – which has two elements. First where local government agrees to provide a service but then funding is subsequently withdrawn leaving local government to fund the service. Secondly, when a service is stopped and community expectation forces local government to step in.

Victorian councils are playing an increasingly important role in the provision of human services to local communities. Unfortunately this is this area where readily identifiable cost shifting is occurring. The three main areas of concern are Home and Community Care (HACC), Maternal & Children Health Services (M&CHS) and public libraries. Due to the complex nature by which HACC is funded, it will be discussed in more detail in Chapter 7.

5.2 Statutory and Non Statutory Cost Shifting cont.

5.2.1 Maternal and Children Health Services

M&CHS core funding is one of the major specific purpose grants received by local government. M&CHS core funding consists of funding for a “target population” and for “weightings”. The unit cost is integral to the State’s funding formula for determining the funding for the target population. The funding reflects consultations at specified key ages with additional consultations/activities for families with their first child and families with particular needs. State funding is obtained by multiplying its agreed share of the unit cost by the total number of M&CH Nurse Hours involved with each component.

Since reaching agreement with the MAV in 1997-98 on the basis for future funding levels, the State DHS has made little allowance for cost increases. Over the past five years there has been little change in the funding for the target population and the pool for weightings has been frozen. The effective funding rate provided by the State Government has increased by only 5% over this period, yet councils’ costs for the provision of this service have increased by close to 18%. As a result, the share of the cost borne by local government has increased from 49% to 54%, a real terms increase of about \$7.5m. This shift also needs to be viewed in the context that some councils are satisfying demand for “additional to core” services.

Table 5: M&CHS Funding, 1997-98

Year	Total Hours Funded	Funding for Target Population \$m	Funding Rate for Target Population	Funding for Weightings	Total DHS Core Funding \$m	Effective Overall Funding Rate \$	% Change in Funding Rate
1997-98	571,543	12.637	22.11	1.810	14.447	25.28	
1998-99	562,288	12.432	22.11	1.810	14.242	25.33	0.20%
1999-00	561,845	12.422	22.11	1.810	14.232	25.33	0.00%
2000-01	567,568	12.744	22.45	1.810	14.553	25.64	1.22%
2001-02	563,713	12.746	22.61	1.810	14.556	25.82	0.71%
2002-03	567,438	13.312	23.46	1.810	15.122	26.65	3.21%

Table 5: M&CHS Funding, 1997-98

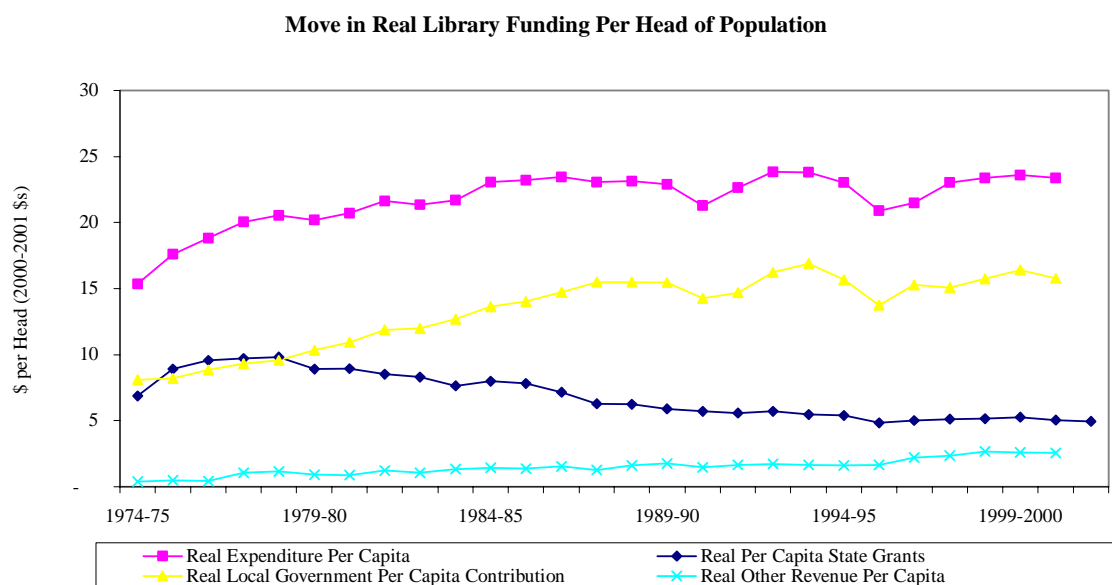
Year	Total Hours Funded	Unit Cost	Unit Cost @ 50.97%	Effective Overall DHS Funding Rate	Difference \$m	Difference 2002-03 \$m	Proportion of Unit Cost Funded
1997-98	571,543	49.60	25.28	25.28	(0.00)	(0.00)	51.0%
1998-99	562,288	52.00	26.50	25.33	(0.66)	(0.74)	48.7%
1999-00	561,845	54.40	27.73	25.33	(1.35)	(1.48)	46.6%
2000-01	567,568	55.70	28.39	25.64	(1.56)	(1.65)	46.0%
2001-02	563,713	57.31	29.21	25.82	(1.83)	(1.89)	45.3%
2002-03	567,438	58.36	29.75	26.65	(1.76)	(1.76)	45.7%
Total					(7.16)	(7.52)	

5.2 Statutory and Non Statutory Cost Shifting cont.

5.2.2 Public Libraries

In relation to library funding, the State Government's Public Library Grant is a significant source of recurrent funding for Victoria's public libraries. There has been a trend of decreasing State real per capita funding of public libraries over the past 20 years, as shown in **Figure 8**.

Figure 8:



Notes: excludes GST effects

The share of recurrent funding of public libraries accounted for by Public Library Grants has subsequently fallen from as high as 51% of total expenditure to the present level estimated at about 20%. As a consequence of the reduction in the rate of State funding there has been falling investment in book stock and infrastructure. Local government has found it impossible to satisfy both wage demands and simultaneously maintain the quality of book stock, information technology and buildings.

5.2.3 Other areas of cost shifting

There are other areas across the local government sector where cost shifting is occurring. Often these are difficult to quantify and tend to be the result of a change in legislation and the associated changes in regulatory requirements. Two examples are:

- the impact on local government infrastructure costs of the Commonwealth's decision to increase mass limits of heavy vehicles; and
- the impact on local government facilities providing children's services through a change in the State regulations governing premises.

These decisions are largely made without appropriate consultation or negotiation with local government, particularly with respect to the costs involved. They are also made without consideration of the uneven impact of the decision across the State and effects for more poorly resourced councils. For example, the cost of the mass limits decision on Victorian councils bordering the Murray River was significant and impacted on councils that had a minimal capacity to financially respond.

Our calculations show that cost shifting onto Victorian councils by other levels of government amount to approximately \$60million. This represents 15 – 20% of a larger funding problem facing Victorian local government.

6. THE FUNDING SHORTFALL

Key Points:

- **Financial data shows that the issue of cost shifting account for only 15-20% of the funding deficit facing Victorian councils.**
- **The larger problem is the overall lack of funds that councils require to simultaneously fund day to day services and undertake the necessary infrastructure renewal and replacement.**

The largest problem facing local government is an overall lack of funds with which to simultaneously fund services and to provide for the necessary renewal of assets. Financial data show that the issue of cost shifting in responsibilities for, and funding of, major specific programs, while a significant issue, is secondary to this problem.

The MAV has documented cost shifting of at least \$40m per annum (in 2001-02) in the recurrent funding of three major specific purpose funding programs affecting Victorian councils - major HACC services, Libraries and Maternal and Child Health. A further \$20m of cost shift has probably occurred with respect to the range of other specific programs covering local government functions.

In comparison, a real annual shortfall of \$601m to \$358m per annum between 1995-96 and 2000-01 in councils' core funding gap is identified. *Table 6* shows a comparison of councils' core recurrent funding sources and expenses over recent years.

6. THE FUNDING SHORTFALL cont.

Table 6: Victorian Local Government Income and Expenditure (real \$m)

	1995-96		1996-97		1997-98		1998-99		1999-00		2000-01		Average Annual Change
nominal \$m													
Rates, Fees, Fines & Charges	1,709.3	74%	1,778.3	76%	1,882.7	78%	1,984.8	78%	2,129.0	79%	2,216.7	78%	5.3%
Untied Revenue Grants	274.4	12%	285.5	12%	285.8	12%	291.5	11%	299.0	11%	311.1	11%	2.5%
Specific Purpose Revenue Payments	313.4	14%	283.7	12%	253.5	10%	258.7	10%	265.0	10%	314.9	11%	0.1%
Total	2,297.0	100%	2,347.6	100%	2,422.0	100%	2,534.9	100%	2,693.1	100%	2,842.7	100%	4.4%
a. Recurrent Expenses ex. Depreciation	2,311.9		2,306.4		2,221.2		2,356.2		2,498.0		2,557.8		2.0%
b. Recurrent Expenses incl. Depreciation (2)	2,550.8		2,571.5		2,789.2		2,927.9		3,101.4		3,200.5		4.6%
c. Recurrent Expenses incl. Depreciation (3)	2,849.8		2,841.2		2,789.2		2,927.9		3,101.4		3,200.5		2.3%
a. Difference	- 14.9		41.2		200.7		178.8		195.0		284.9		
b. Difference	- 253.8		- 223.9		- 367.3		- 392.9		- 408.3		- 357.8		
c. Difference	- 552.8		- 493.6		- 367.3		- 392.9		- 408.3		- 357.8		
index	<i>1.08784</i>		<i>1.074229</i>		<i>1.075125</i>		<i>1.065343</i>		<i>1.037873</i>		<i>1.0000</i>		
real \$m 2000-01 prices													
Rates, Fees, Fines & Charges	1,859.4	74%	1,910.3	76%	2,024.2	78%	2,114.5	78%	2,209.6	79%	2,216.7	78%	3.6%
Untied Revenue Grants	298.5	12%	306.7	12%	307.2	12%	310.6	11%	310.3	11%	311.1	11%	0.8%
Specific Purpose Revenue Payments	340.9	14%	304.7	12%	272.5	10%	275.6	10%	275.1	10%	314.9	11%	-1.6%
Total	2,498.8	100%	2,521.8	100%	2,603.9	100%	2,700.6	100%	2,795.0	100%	2,842.7	100%	2.6%
a. Recurrent Expenses ex. Depreciation	2,515.0		2,477.6		2,388.1		2,510.1		2,592.6		2,557.8		0.3%
b. Recurrent Expenses incl. Depreciation (2)	2,774.8		2,762.4		2,998.8		3,119.2		3,218.8		3,200.5		2.9%
c. Recurrent Expenses incl. Depreciation (3)	3,100.1		3,052.1		2,998.8		3,119.2		3,218.8		3,200.5		0.6%
a. Difference	- 16.2		44.3		215.8		190.4		202.4		284.9		
b. Difference	- 276.1		- 240.5		- 394.9		- 418.6		- 423.8		- 357.8		
c. Difference	- 601.3		- 530.2		- 394.9		- 418.6		- 423.8		- 357.8		

Source : Council returns to VGC

Notes:

Excludes expenses on main roads which are reimbursed

Untied Revenue Grants are C'wealth General Purpose Grant and Local Roads Grant

(b) as reported

(c) adjusted based on Expenses incl. Depreciation at around 124% of Expenses ex. Depreciation for 1995-96 and 1996-97

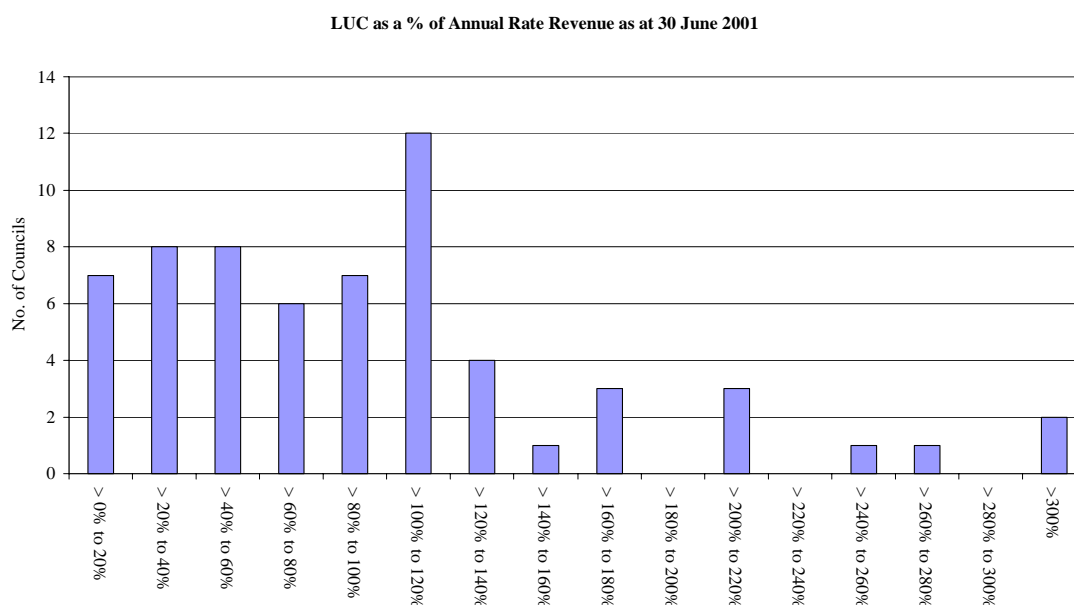
6. THE FUNDING SHORTFALL cont

The data shows that councils have increased rates, fees and charges at a relatively high rate in an attempt to reduce the funding shortfall. An important factor impacting councils spending on assets was the Kennett government's requirement for rate reductions. The imposed savings resulted in councils reducing their capital spend by one third in 1995-96. The introduction of new standards relating to accounting for assets also meant that some councils discovered that some assets had been substantially undervalued and therefore historic levels of renewal spending were deficient.

A cumulative gap of \$2.7b over six years between expenses and councils' core revenue streams is indicated which is equivalent to a real average annual increase in rates, fees and charges of about 16%. This finding aligns with the recent report of the Victorian Auditor General who estimated a deficiency of between \$1.4b and \$2.75b in council spending on renewal and maintenance of local roads over the past five years. The Auditor-General commented on the compounding future asset renewal costs that councils were facing and confirmed that in general, rate revenues were not being set at a level that would enable assets to be renewed when needed.

Data from councils' annual reports show that the proportion of rate revenues represented by councils' aggregate loan liability, unfunded superannuation liability and cumulative capital spending deficit over the past four years (together termed *LUC*)² poses an insurmountable burden for a number of Victorian councils, as illustrated in **Figure 9**. In more than one third of Victoria's 78 councils LUC exceeds annual rate revenue.

Figure 9



² These figures probably understate the actual financial pressures as they do not take account of the backlog in capital renewal spending prior to 1997-98 and are affected by the lumpiness of new capital spending.

6. THE FUNDING SHORTFALL cont

It is not surprising that many of these at-serious-risk councils are rural councils with limited population and extensive roads infrastructure. A significant number are characterised by declining populations, relatively low levels of local income and limited or no opportunities to generate dependable revenues from development and discretionary sources such as parking or municipal enterprise. The proximity and structural characteristics of these councils also means that the funding issue cannot be addressed through further municipal restructure.

The situation is a worsening one for a number of councils. In 1997-98 there was only one council where LUC was twice the value of rate revenue. By the end of 2000-01 seven councils were in this position. *Table 7* provides a full breakdown by council.

Table 7: LUC BY COUNCIL IN VICTORIA, 1998-99

<i>Council</i>	<i>Type</i>	<i>LUC (\$m)</i>	<i>LUC as a % of Rate Revenue</i>	<i>Population 2001</i>	<i>5 Year Average Annual Population Growth</i>	<i>Ratio of Mean Taxable Income to Victorian Average</i>
Alpine	Small Shire	-0.5	-7%	12,788	1.00%	83%
Ararat	Small Shire	5	104%	11,301	-0.60%	86%
Ballarat	Regional City	35.1	129%	82,698	0.90%	89%
Banyule	Inner Metro	2.3	7%	119,380	0.30%	105%
Bass Coast	Small Shire	11.6	115%	23,880	2.10%	78%
Baw Baw	Large Shire	1.3	10%	35,593	0.60%	86%
Bayside	Inner Metro	23	80%	92,287	1.30%	140%
Boroondara	Inner Metro	18.3	32%	161,810	1.00%	145%
Brimbank	Outer Metro	31.5	74%	166,802	1.40%	91%
Buloke	Small Shire	10.7	268%	7,146	-2.10%	72%
Campapse	Large Shire	14.5	106%	35,656	0.50%	80%
Cardinia	Outer Metro	5.5	47%	47,006	1.90%	93%
Casey	Outer Metro	-5.5	-13%	182,863	4.20%	94%
Central Goldfields	Small Shire	-0.3	-9%	12,526	-0.60%	76%
Colac-Otway	Large Shire	11.1	116%	20,207	-0.50%	81%
Corangamite	Large Shire	29.3	373%	16,764	-1.20%	79%
Darebin	Inner Metro	-38.2	-93%	130,649	0.50%	91%
Delatite	Large Shire	5.3	62%	20,162	0.10%	82%
East Gippsland	Large Shire	21.3	122%	39,025	0.00%	79%
Frankston	Outer Metro	9.7	33%	115,203	1.10%	92%
Gannawarra	Small Shire	6.8	167%	11,707	-1.40%	77%
Glen Eira	Inner Metro	-1.9	-7%	125,988	0.90%	107%
Glenelg	Large Shire	3.8	41%	19,535	-1.30%	92%
Golden Plains	Small Shire	0.5	16%	14,817	1.50%	86%
Greater Bendigo	Regional City	-15.2	-49%	88,973	1.00%	84%

<i>Council</i>	<i>Type</i>	<i>LUC (\$m)</i>	<i>LUC as a % of Rate Revenue</i>	<i>Population 2001</i>	<i>5 Year Average Annual Population Growth</i>	<i>Ratio of Mean Taxable Income to Victorian Average</i>
Greater Dandenong	Outer Metro	36	98%	132,096	0.00%	86%
Greater Geelong	Regional City	8.1	13%	193,582	1.10%	95%
Greater Shepparton	Regional City	10.4	53%	57,202	1.10%	84%
Hepburn	Small Shire	6.3	132%	14,210	0.30%	82%
Hindmarsh	Small Shire	-0.9	-33%	6,319	-1.60%	77%
Hobsons Bay	Inner Metro	9.7	30%	84,372	1.60%	100%
Horsham	Regional City	10.8	174%	18,185	0.30%	83%
Hume	Outer Metro	43.9	118%	137,391	2.60%	94%
Indigo	Small Shire	1.2	26%	14,388	0.30%	89%
Kingston	Inner Metro	62.9	168%	135,773	0.90%	97%
Knox	Outer Metro	18	55%	147,801	1.60%	98%
Latrobe	Regional City	20.9	75%	68,721	-0.70%	98%
Loddon	Small Shire	-0.9	-23%	8,517	-1.30%	74%
Macedon Ranges	Large Shire	13.9	105%	36,780	1.50%	102%
Manningham	Inner Metro	-38	-111%	116,055	1.00%	112%
Maribyrnong	Inner Metro	26.7	88%	61,329	0.00%	92%
Maroondah	Inner Metro	21.2	82%	100,172	0.90%	98%
Melbourne	Inner Metro	-65.6	-67%	57,248	7.60%	132%
Melton	Outer Metro	17.1	103%	54,953	6.20%	94%
Mildura	Regional City	6	33%	49,206	1.40%	81%
Mitchell	Large Shire	8.1	107%	27,542	1.40%	91%
Moira	Large Shire	31.5	307%	26,436	0.40%	80%
Monash	Inner Metro	8	21%	164,647	0.50%	104%
Moonee Valley	Inner Metro	16.1	46%	112,973	0.50%	102%
Moorabool	Large Shire	8.6	111%	24,463	1.30%	95%
Moreland	Inner Metro	3.2	8%	137,677	0.10%	92%
Mornington	Outer Metro	33.7	73%	130,404	2.10%	98%
Mount Alexander	Small Shire	7.5	153%	16,540	-0.20%	82%
Moyne	Large Shire	-1.4	-21%	15,886	-0.80%	81%
Murrindindi	Large Shire	5.6	95%	13,058	0.20%	85%
Nillumbik	Outer Metro	10.8	63%	60,718	1.20%	110%
Northern Grampians	Small Shire	11.5	210%	12,953	-0.60%	81%
Port Phillip	Inner Metro	2.1	5%	84,615	2.10%	126%
Pyrenees	Small Shire	2.9	106%	6,562	-1.20%	77%
Queenscliff	Small Shire	0	0%	3,390	-0.40%	99%
South Gippsland	Large Shire	10.6	91%	25,566	0.10%	82%
Southern Grampians	Large Shire	1.7	25%	16,427	-1.40%	79%
Stonnington	Inner Metro	-13.3	-43%	93,703	1.10%	160%
Strathbogie	Small Shire	9.9	248%	9,338	0.10%	78%
Surfcoast	Large Shire	11.2	101%	20,515	2.80%	97%
Swan Hill	Regional City	9.7	112%	20,873	0.00%	77%

<i>Council</i>	<i>Type</i>	<i>LUC (\$m)</i>	<i>LUC as a % of Rate Revenue</i>	<i>Population 2001</i>	<i>5 Year Average Annual Population Growth</i>	<i>Ratio of Mean Taxable Income to Victorian Average</i>
Towong	Small Shire	1.4	50%	6,074	-1.30%	79%
Wangaratta	Regional City	11.5	131%	25,782	-0.20%	84%
Warrnambool	Regional City	8.4	84%	29,323	1.40%	86%
Wellington	Large Shire	39.5	209%	40,275	-0.60%	91%
West Wimmera	Small Shire	-1.4	-52%	4,740	-1.80%	72%
Whitehorse	Inner Metro	-18.4	-54%	147,600	0.60%	104%
Whittlesea	Outer Metro	29.2	85%	118,764	2.30%	89%
Wodonga	Regional City	5.9	58%	32,379	1.40%	89%
Wyndham	Outer Metro	-12.1	-35%	88,133	2.90%	98%
Yarra	Inner Metro	14.2	36%	70,128	0.90%	112%
Yarra Ranges	Outer Metro	21.9	47%	144,125	1.00%	93%
Yarriambiack	Small Shire	8.8	208%	8,229	-1.40%	76%

Note: Mean Taxable Income based on ATO Data for 1998-99

This predicament also needs to be placed in context – it represents the situation following several years of real growth of more than 3% per annum in councils' rate revenue.

7. RATIONALISATION OF ROLES AND RESPONSIBILITIES AND THE RESOURCE AND SERVICE IMPLICATIONS

Key Points:

- **Despite the importance of local government to many community services, such as HACC, there are often low levels of cooperation in the planning, development and provision of services.**
- **The HACC program in Victoria is currently in need of a review of some services with the aim of improving not only efficiencies but also creating a more stable, equitable funding process.**

7.1 Rationalisation and Review of Programs: The HACC Case

HACC funding is the largest source of specific purpose funding which councils receive. In Victoria the HACC program is funded through a complex process involving all three levels of governments and is a prime candidate for a comprehensive review prior to a rationalisation of roles and responsibilities for the three levels of government. In Victoria, local government is the major provider of Home Care, Personal Care, Respite Care, Property Maintenance, Delivered Meals, Assessment and Care Management and Service System Resourcing³.

HACC funding provided to Victorian agencies by Commonwealth and State Governments is based on a funding formula of matched contributions plus unmatched State Government funding. The matched contributions are based upon a 60% Commonwealth / 40% State commitment. The latter 40% comprises actual funding provided by the State and an “*imputed local government contribution*”. In addition the State Government also contributes an unmatched contribution. The allocation of funding is a State Government responsibility.

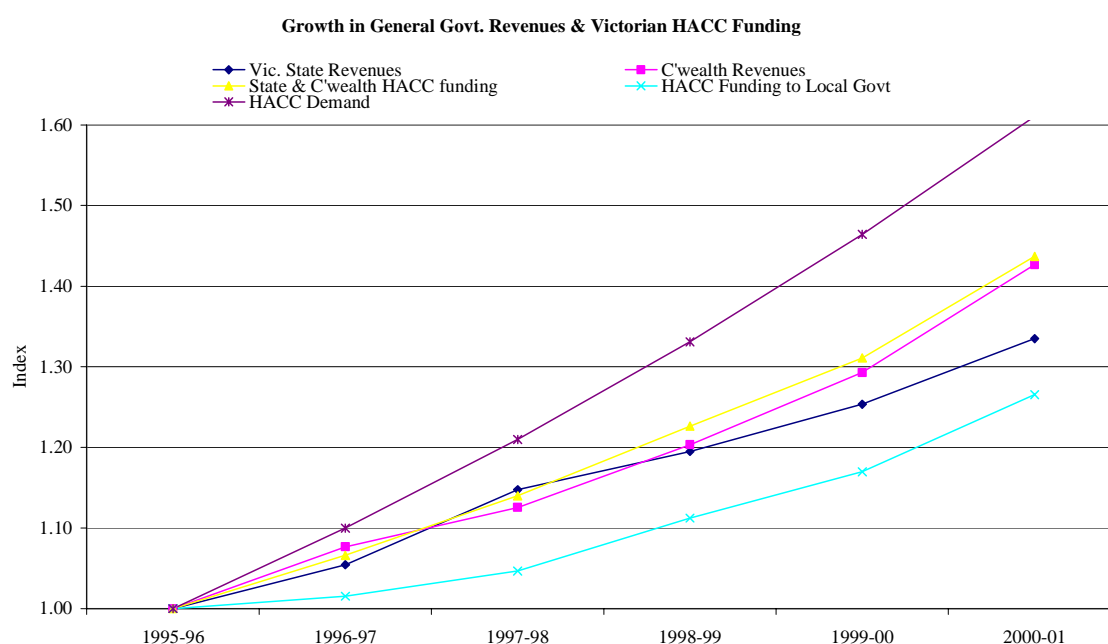
³ *Service System Resourcing block funding is used for the purchase of maintenance services for senior citizens centres, community service officers involved in planning and coordination and the purchase of systematic advocacy, training and support for consumers and provider organisations.*

7.1 Rationalisation and Review of Programs: The HACC Case cont.

Table 8: Total HACC Funding Contribution by Government Level

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Cwltch Matched	119.0	126.6	134.0	141.2	148.9	157.7	167.3
State Matched including imputed LG Contribution	79.5	84.7	89.7	94.3	99.4	105.0	111.7
State Unmatched	0.5	0.6	2.7	7.7	11.4	18.7	22.3
<i>Sub-total</i>	199.0	211.9	226.4	243.2	259.7	281.4	301.3
Local Government Imputed Contribution	na	na	6.6	6.9	7.3	7.7	8.2
Capital/Non-Recurrent/Non-Govt. Organisation Insurance	na	na	Na	6.1	4.6	3.4	4.6
State HACC Administration Funding	na	na	Na	2.5	2.6	2.6	2.7
<i>Balance Available</i>	190.7	203.3	217.3	227.7	245.2	267.7	285.8
Local Govt Share	80.9	82.1	84.6	89.9	94.6	102.3	111.47409
	42%	40%	39%	40%	39%	38%	na

Figure 10:



While the total of HACC funding from other levels of government has kept pace with growth in Commonwealth revenues and grown faster than State revenues, it is still lower than the growth in demand for HACC services, as shown in **Figure 10**. As the Australian population ages, demand will continue to rapidly increase. Until recently additional demand has been satisfied by an **increasing local government contribution**.

7.1 Rationalisation and Review of Programs: The HACC Case cont.

The MAV is unclear as to the background of the agreement struck between the State and Commonwealth Governments on the level of imputed local government contribution. This contribution is recognised as about 8% of the Victorian State matched contribution, although the local government contribution is currently estimated at more than 30% of the total cost of HACC services⁴. This marks a considerable shift from the 80% Commonwealth/State government – 20% local government basis that originally characterised responsibilities for HACC funding.

Local government's share of the proportion of actual HACC recurrent funds available in Victoria has declined due to:

- inadequacy of both output purchase prices, block funding and delivered meals subsidy and their indexation;
- more rapid expansion of services where local government is not the predominant supplier; and
- reduction in output purchase volumes of delivered meals.

The State Government administers HACC funding through an output purchasing system in which the Department of Human Services (DHS) determines an output price for some services and allocates funding to agencies on the basis of purchasing a specific volume of units.

DHS has indicated that it has based its output prices for those services where local government is the predominant provider on local government delivery costs. However, the State's output prices have never fully compensated the full costs of service provision. This is shown in *Table 9*.

⁴ Estimate over all HACC services. Figure estimated at 27% for the major HACC services, down from 30% two years earlier.

7.1 Rationalisation and Review of Programs: The HACC Case cont.

Table 9: Comparison of HACC Output Prices & Estimated Average Unit Costs

Output Prices	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Home Care	21.5	21.7	21.7	22.13	22.75	23.84
Personal Care	24.6	24.8	24.8	25.3	26.01	27.26
Respite Care	22.4	22.6	22.6	23.05	23.51	24.64
Property Maintenance	33.66	34	34	34	34	34.68
Planned Activity Group (Core)	8.4	8.48	8.48	9.12	9.35	9.69
Planned Activity Group (High)	12.52	12.65	12.65	12.85	13.17	13.66
Meals	1.1	1.1	1.1	1.1	1.1	1.2
Estimated Average Unit Costs	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Home Care	22.22	22.66	23.08	24.01	24.73	25.55
Personal Care	23.7	25.65	27.59	28.78	29.65	30.65
Respite Care	26.02	28.16	30.29	31.44	32.38	33.46
Property Maintenance	42.53	38.77	35	35.86	36.93	38.13
PAG Core	9.56	9.13	8.72	8.9	9.17	9.44
PAG High	11.86	12.93	14	14.42	14.85	15.28
Meals	7.19	7.65	8.06	8.28	8.53	8.71
Unit Price as % Unit Cost	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Home Care	97%	96%	94%	92%	92%	93%
Personal Care	107%	97%	90%	88%	88%	89%
Respite Care	88%	80%	75%	73%	73%	74%
Property Maintenance	93%	88%	97%	95%	92%	91%
PAG Core	106%	98%	103%	102%	102%	103%
PAG High	79%	98%	90%	89%	89%	89%
Meals	15%	14%	14%	13%	13%	14%

Notes:

1997-98 & 1998-99 based on shadow prices. Italicised figures proposed.

For services where local government is the predominant provider, the proportion of full cost offset by the purchase price has also fallen. In fact the output prices that the State DHS pays Victorian councils for home care, personal care and respite care are below the lowest obtainable market rates, the impact amplified by the fact that most councils are forced to pay higher-than-award rates to attract and retain an appropriate number of staff. It should be noted that the Commonwealth Productivity Commission's report of October 2000 titled "Long Term Aged Care Expenditure Trends and Projections" indicates costs well above those presently remunerated under the HACC program.

The State has block funded Assessment & Care Management (A&CM) over recent years at 5% of the total value of output prices for direct service. The MAV has found that the ratio of A&CM cost to service cost is about double this. The cost of assessment, home care, personal care, respite care and property maintenance purchased by DHS exceeded its funding for these services by \$20m in 2001-02. In total the contribution from councils, user charges and Commonwealth Department of Veteran Affairs (DVA) funding in 2001-02 amounted to \$44m.

Table 10: Comparison of HACC Unit Prices & Costs for Victoria 1999-00 to 2001-02

	Units "Purchased" by DHS	Value of Output Purchases (\$m)	Cost of DHS Purchases (\$m)	Estimated Total Units	Cost of Total Council HACC Provision (\$m)	DHS Output Purchases as % Total	User Charges	Contribution from Council# (\$m)
1999-00								
Home Care	1,618,670	35.1	37.4	2,600,877	60.1	58%	9.0	15.9
Personal Care	552,145	13.7	15.2	598,547	16.5	83%	1.8	1.0
Respite Care	586,568	13.3	17.8	666,299	20.2	66%	1.2	5.7
Property Maintenance	164,098	5.6	5.7	283,133	9.9	56%	2.6	1.8
Meals	4,054,534	4.5	5.0	3,626,684	29.4	15%	12.9	12.0
A&CM		3.7	9.0		11.6	32%	-	7.9
Total		75.8	90.2		147.7	51%	27.5	44.4
2000-01								
Home Care	1,709,920	37.8	41.0	2,568,984	61.7	61%	9.2	14.6
Personal Care	567,714	14.4	16.4	617,839	17.8	81%	2.0	1.5
Respite Care	607,134	14.0	19.1	636,956	20.0	70%	1.2	4.8
Property Maintenance	170,780	5.8	6.1	290,548	10.4	56%	2.7	1.9
Meals	4,009,845	4.4	5.1	3,763,917	31.2	14%	13.7	13.1
A&CM		4.2	9.6		11.9	35%	-	7.7
Total		80.6	97.3		153.0	53%	28.9	43.5
Difference on Previous Year		4.8	7.1		5.3			-0.8
2001-02								
Home Care	1,773,335	40.3	45.3	2,491,525	63.7	63%	9.5	13.8
Personal Care	587,268	15.3	18.0	623,231	19.1	80%	2.1	1.7
Respite Care	618,948	14.6	20.7	636,818	21.3	68%	1.3	5.5
Property Maintenance	175,249	6.0	6.7	282,039	10.8	55%	2.8	2.0
Meals	3,891,404	4.3	4.9	3,936,507	33.6	13%	14.8	14.5
A&CM		4.8	9.9		12.0	40%	-	7.3
Total		85.2	105.5		159.5	53%	30.5	43.8
Difference on Previous Year		4.6	8.3		6.5			0.3

Notes:

includes DVA funding in 2001-02

DVA funding is not provided for meals or assessment and care management

No user charges for A&CM

7.1 Rationalisation and Review of Programs: The HACC Case cont.

There is no more poignant indicator of the cost shift in HACC than delivered meals. Rather than an output purchase, DHS provides a unit subsidy. Although considered as the most basic and universal of aged and disabled services the subsidy has not changed for many years, being anchored at \$1.10 or less than 15% of the total cost. DHS has proposed an increase of 10c per meal in 2002-03. The subsidy for meals in 2001-02 was \$4.3m against \$14.7m in user fees and a balance of \$14.5m by way of council contribution.

Many councils have responded to the cost shift by absorbing increases in State purchases of additional hours of home care, personal care and respite care that they had previously been providing. This has resulted in reductions in total service volumes or service growth that is significantly less than the growth factor in State and Commonwealth funding directed to HACC. Other councils are considering possibilities for increasing user charges within the constraints posed by funding agreements and the users' capacity to pay or making a decision not to provide services.

Table 11: Change in Service Units Purchased by DHS from & Delivered by Victorian Councils

	Unit	2000-01 % Change in Units Purchased by DHS on previous year	2000-01 % Estimated Change in Total Units on previous year (n=43)	2000-01 Estimated Net Change in Total Units (000)	2001-02 % Change in Units Purchased by DHS on previous year	2001-02# % Estimated Change in Total Units on previous year (n=45)	2001-02# Estimated Net Change in Total Units (000)
Home Care	Direct Service Hours	7.7	-1.2	-18,427	6.6	-3.0	-47,462
Personal Care	Direct Service Hours	4.9	3.2	11,531	6.3	0.9	3,447
Respite Care (H&C)	Direct Service Hours	5.6	-4.4	-15,617	4.0	0.0	-84
Property Mce.	Direct Service Hours	4.1	2.6	4,583	2.6	-2.9	-4,469
Delivered Meals	Meals	-1.1	3.8	79,738	-3.0	4.6	103,546

Notes:

*#excludes CACPS, Linkages, other brokerage and private business but includes DVA in 2001-02
75 Victorian councils deliver HACC services*

7.1 Rationalisation and Review of Programs: The HACC Case cont.

The MAV argues that the current funding levels are insufficient to avoid the growing home care crisis. Councils under significant financial pressure are not in a position to continue to subsidise home care at previous levels. It is not unusual for councils to report waiting lists of several hundred persons and waiting periods of up to 3 months for high priority cases and up to 12 months for low priority cases.

Table 12: Changing Levels of HACC Hours Provided By Local Government

	% of Councils Surveyed 2000-01	% of Councils Surveyed 2001-02
Change in Home Care Hours		
fall of 10% or more	21%	25%
fall of less than 10% to 5%	16%	13%
fall of less than 5% to zero	23%	20%
increase up to 5%	14%	13%
increase of more than 5% to 10%	7%	10%
increase of more than 10%	19%	20%
Change in Personal Care Hours		
fall of 10% or more	38%	23%
fall of less than 10% to 5%	7%	5%
fall of less than 5% to zero	2%	13%
increase up to 5%	7%	5%
increase of more than 5% to 10%	14%	10%
increase of more than 10%	31%	45%
Change in Respite Care Hours		
fall of 10% or more	31%	38%
fall of less than 10% to 5%	12%	8%
fall of less than 5% to zero	10%	8%
increase up to 5%	17%	15%
increase of more than 5% to 10%	12%	3%
increase of more than 10%	19%	30%
Change in HC, PC & RC Hours		
fall of 10% or more	19%	20%
fall of less than 10% to 5%	12%	23%
fall of less than 5% to zero	21%	8%
increase up to 5%	21%	15%
increase of more than 5% to 10%	16%	8%
increase of more than 10%	12%	28%

One of the greatest difficulties facing Victorian local government in resolving issues around the HACC service is that both the Commonwealth and State will not accept responsibility for the cost pressures facing councils. All three levels of government have a substantial financial and social investment in the provision of aged care. Cooperation from all levels of government is essential if the current situation is to be remedied.

7.1 Rationalisation and Review of Programs: The HACC Case cont.

The emergence of parallel programs such as the Commonwealth's CAPS program and the State's Linkages program also create tensions for local government. The brokerage services that characterise the program must impose additional administrative overheads. Improved program planning and cooperation is needed to ensure maximum efficiency with HACC services.

Despite the integral role of councils in community services such as HACC and M&CHS there are often low levels of cooperation in the planning, development and provision of services. There is a requirement for:

- greater acceptance of the advice provided by local government concerning service provision costs;
- increasing local government's involvement in policy development, planning and service reform through a constructive partnership;
- recognising the natural advantages of using local government to deliver certain programs;
- acknowledging the limited financial capacity of local government to resolve major issues such as infrastructure and aged care;
- maintaining and increasing Commonwealth and State program flexibility to enable local government to deliver outcomes to the community on behalf of all levels of government.

The HACC program is a good example of the need for a comprehensive review in order to improve efficiency and to obtain agreement about a more stable, and equitable funding process.

8. THE COMMONWEALTH GRANTS COMMISSION REVIEW OF THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

Key Points:

- **The single biggest factor limiting the effectiveness of the FAGS process is the limited quantum of funds available.**
- **This is exacerbated by the lack of an appropriate growth mechanism to ensure the funding pool grows in line with local government increasing responsibilities and requirements.**
- **The per capita distribution of FAGS must be maintained in its current form. Any move away from the per capita based state allocation would seriously impact the capacity of the program to respond to the needs of each state local government sector as well as penalising states that have achieved substantial efficiency gains.**

The MAV generally supports the recommendations of the Commonwealth Grants Commission (CGC) Review of the Local Government (Financial Assistance) Act 1995 that was completed in June 2001. The CGC review rightly highlights a number of tensions within the FAGS process, but due again to limited terms of reference, it failed to deal with the key question of the quantum of funds available for the program. The single biggest factor limiting the value and effectiveness of the FAGS process is the quantum.

The size of the national pool is simply inadequate to deal realistically with the financial constraints facing local government. The focus has been on the maintenance of real terms per capita funding rather than a consideration of local government's increasing responsibilities.

The CGC review recommends moving to a three-tiered system for allocation of FAGS. The system would be composed of a per capita pool, a roads pool and a relative need pool. The per capita and roads pools would operate in a similar way to the current system and the relative need pool would provide additional assistance to the more disadvantaged councils. The major flaw with this proposal is that in effect it is simply a new distribution model with no change to the pool of funds. It is hard to see how this would go any way toward addressing the substantial funding pressures facing the sector. The MAV has serious concerns that the introduction of a "relative need" pool would prove a disincentive to important efficiency and effectiveness gains needed across local government nationally.

**8. THE COMMONWEALTH GRANTS COMMISSION REVIEW OF
THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT
1995 cont.**

The MAV would stress that the per capita distribution of the FAGS program must be maintained in its current form. Many reviews and reports on FAGS have highlighted the difficulty in achieving national equalisation across local government when their roles and responsibilities vary so greatly between states. The current system enables each state based Local Government Grants Commission (LGGC) to ensure the distribution of FAGS to councils in a way that reflects the individual character of that state's local government sector, in the context of the National Principles. Any move away from per capita based state allocations would seriously impact on the capacity of FAGS to respond to the needs of each state's local government sector as well as penalising states that have achieved substantial efficiency gains.