



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION

Reference: Local government and cost shifting

Roundtable

FRIDAY, 6 DECEMBER 2002

WARRNAMBOOL

CONDITIONS OF DISTRIBUTION

This is an uncorrected proof of evidence taken before the committee. It is made available under the condition that it is recognised as such.

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

[PROOF COPY]

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Friday, 6 December 2002

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

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

Terms of reference for the inquiry:

To inquire into and report on:

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

1. Local government's current roles and responsibilities.
2. Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.
3. The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.
4. Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.
5. The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.
6. The findings of the Commonwealth Grants Commission [http://www.cgc.gov.au/Review of the Local Government \(Financial Assistance\) Act 1995 of June 2001](http://www.cgc.gov.au/Review of the Local Government (Financial Assistance) Act 1995 of June 2001), taking into account the views of interested parties as sought by the Committee. The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

PARTICIPANTS

ANSON, Mr Bruce, Director, Corporate Services, Warrnambool City Council	387
BAWDEN, Mr Anthony Glenn, General Manager, Corporate Services and Economic Development, Horsham Shire Council	387
CORNISH, Mr Stephen, Chief Executive Officer, Pyrenees Shire Council	387
GRAY, Mr Geoffrey, Manager, Economic Development and Tourism, Pyrenees Shire Council	387
HAYMAN, Mr Colin, Group Manager, Corporate and Community Services, Corangamite Shire Council	387
JACOBS, Mr Neil Rodney, Chief Executive Officer, Hindmarsh Shire Council	387
JAKOB, Mr Gregory Raymond, Director, Corporate Services, Moorabool Shire Council.....	387
JOHNSTON, Mr Peter, Chief Executive Officer, Corangamite Shire Council.....	387
KELLER, Mr John David, Acting Chief Executive Officer, Glenelg Shire Council	387
MERRITT, Mr Lindsay Alan, Chief Executive, Warrnambool City Council.....	387
MOSTYN, Mr Graham Neil, Chief Executive Officer, Southern Grampians Shire Council	387

PRICE, Mr Geoffrey David, Director, Corporate Services, Southern Grampians Shire Council..... 387

Committee met at 2.10 p.m.

HAYMAN, Mr Colin, Group Manager, Corporate and Community Services, Corangamite Shire Council

JOHNSTON, Mr Peter, Chief Executive Officer, Corangamite Shire Council

KELLER, Mr John David, Acting Chief Executive Officer, Glenelg Shire Council

JACOBS, Mr Neil Rodney, Chief Executive Officer, Hindmarsh Shire Council

BAWDEN, Mr Anthony Glenn, General Manager, Corporate Services and Economic Development, Horsham Shire Council

JAKOB, Mr Gregory Raymond, Director, Corporate Services, Moorabool Shire Council

CORNISH, Mr Stephen, Chief Executive Officer, Pyrenees Shire Council

GRAY, Mr Geoffrey, Manager, Economic Development and Tourism, Pyrenees Shire Council

MOSTYN, Mr Graham Neil, Chief Executive Officer, Southern Grampians Shire Council

PRICE, Mr Geoffrey David, Director, Corporate Services, Southern Grampians Shire Council

ANSON, Mr Bruce, Director, Corporate Services, Warrnambool City Council

MERRITT, Mr Lindsay Alan, Chief Executive, Warrnambool City Council

CHAIR—Welcome. I declare open this afternoon's roundtable hearing on local government and cost shifting. The committee decided to hold a roundtable hearing in order to facilitate discussion on the evidence we had already received through written submissions and heard at previous public hearings. We would also like to hear your views on the future of local government, in terms of its relationship with the state and federal governments.

To begin with, I will ask a representative from each council to make a short opening statement of up to five minutes, and then we will move to a discussion involving the committee and all participants. I would like to advise all participants that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. Although the committee does not require you to give evidence under oath, the giving of false or misleading evidence is a serious matter. I notice there are quite a few other members of local government present, and we might get some views later from you as well.

Mr Merritt—Mr Chairman and members of the committee, on behalf of Warrnambool City Council, thank you for the opportunity of being heard in support of council's submission to this inquiry relating to cost shifting onto local government and the financial position of local government in Australia. As we understand, the committee has received submissions from some

224 local governments, of which 46 are from Victoria. We would certainly concur with your comments at the Australian Local Government Association conference on 4 November, that this inquiry is part of a challenge of working in partnership to achieve a financially viable, vibrant and secure future for local government.

Firstly, a few brief statistics about Warrnambool City Council: it is the largest coastal city outside Port Phillip Bay. It has a fast-growing economy and is the regional centre for south-west Victoria. The city's population is approximately 30,000 and is growing steadily. Council's total budget expenditure for all functions in the current year 2002-03 is \$43.96 million, and that is across 44 discrete service areas. I am sure you are well aware from previous hearings that the role of a regional city is very diverse in terms of its service provision. Of course, many services, such as tourism, economic development, airports, sale yards, harbours et cetera, are well outside the scope of services that would be delivered in, say, a metropolitan area. This year, the city's capital works budget is approximately \$11.8 million, and so our total operational expenditure is approximately \$34.1 million.

I would like to reiterate very briefly some points in our submission. I am sure the committee has heard from other submissions about the nature of cost shifting, taken in its broadest sense. Obviously, it is the transfer of a responsibility from the Commonwealth or states to local government without any additional funding, or insufficient funding or short-term funding for new responsibilities. It also takes the form, of course, of a shift of statutory responsibilities for compliance requirements.

In the council's submission, which you no doubt have a copy of, general comments have been made in relation to the various terms of reference. It is worth noting that for Warrnambool City Council only 32 per cent of our total income is derived from rates; the majority comes from a whole range of other sources. To give an example: for what we could broadly call our human services, we are dependent on some \$4.7 million worth of specific purpose grants in a whole range of programs in community services and recreation. In fact, this council is completely dependent on government grants for services to, as we might put it, keep the doors open.

In order to use my five minutes, I will give a few brief references to areas in which we believe cost shifting has occurred. We appended to our submission the details of a number of programs for which we receive government grants or subsidies to run. We listed in our submission 17 service areas which do receive specific purpose payments, and in seven out of those 17 there has been a decline in the special purpose payments in real terms. I will give some examples from the four-year period 1997-98 to 2001-02. In maternal and child health services, involving expenditure of a bit over \$400,000, the percentage change in grant funding went from 64 per cent to 55 per cent over a four-year period. In home care services, the percentage change in grant funding went from 82 per cent to 62 per cent in that four-year period. Meals-on-Wheels had an expenditure of about \$257,000 and the change in grant funding went from 43 per cent to 17 per cent over that four-year period.

In our reporting to council on our budgets, this year the average increase in government grants for recurrent services was 2.2 per cent up from last year, but in actual fact that represented a 0.9 per cent decrease in real terms, when taking into account inflationary costs. In the previous year the situation was somewhat worse. There was, in fact, a 2.8 per cent real terms reduction, primarily because of state government cost shifting and, in that year, it meant that

this council had to raise rates by some \$205,000 simply to keep pace with delivering exactly the same services, because of that loss of funding.

I am sure the committee heard through the MAV's submission that in the 2000-01 year it was estimated that 30 per cent of the state-wide rate rise, which amounted to some \$31 million, was directly to offset state government cost shifting. As I said earlier, in Warrnambool's case, in that year it resulted in a real terms reduction of approximately \$205,000. We can obviously give further information, but I believe I have used my five minutes.

CHAIR—Thank you very much, Mr Merritt, and thank you to the council for taking the time and trouble to put together those detailed figures. Mr Johnston, would you like to present Corangamite's statement?

Mr Johnston—I am sorry I missed the introduction. We also appreciate the opportunity to provide information to your inquiry. Corangamite Shire provided a submission back in July; I am sure you have got a copy of that, and so I will not go over the detail of it. I would like to take the opportunity to reaffirm a few points in the submission and also to highlight a couple of examples, not very dissimilar from what we have heard from our Warrnambool colleagues about service provision. A brief background on Corangamite is that it is a large rural municipality with a population of about 17,000. We also have 10 towns to provide services to, and that in itself provides some challenges.

I would like to reconfirm a couple of cost shifting areas. In a rural municipality like Corangamite, the cost of providing the same level of service in, say, maternal and child health services between the 1996-97 financial year and today has gone from \$118,000 to \$158,000. That is an increase of \$40,000, which is a little over a 0.5 per cent in rates increase for us. Another example is library services. We maintain a library service for our community. There is little or no public transport for residents to be able to access library services outside their own local town. So we provide library services at five permanent locations. Again, in the past five years the cost of providing the same service has gone from \$163,000 to \$200,000. My final example is in relation to senior citizens centres. Across Australia we have an ageing population. It is a very important area that we look to support. The cost of providing that same senior citizens service has doubled from \$22,000 to \$44,000 in the past five years.

These examples are just the tip of the iceberg, as far as some of the things go that council has to work with on an ongoing basis. Other areas that council is required to address in its statutory responsibilities are things like building and planning, health services, road mass limits, animal control, pedestrian safety, child care and waste management. All those areas of service are often where other levels of government impose changes or legislative requirements for which council is required to be responsible in administering and working with the community to deliver an appropriate outcome but does not have the necessary supporting financial mechanisms. Recent changes in things such as Health Act requirements for immunisation and the Food Act are further examples of that.

Council is responsible for providing a large number of services to our community but, with respect, our community does not really care about who provides or funds those services but cares about the continuity of those services, having access to those services and having an affordable level of service. The difficulty for local government is that we are placed in a position where grants are provided for some services but are reduced in other areas. Because

council is the service deliverer in many instances, we are the ones who have to address the difficulty of making the decision between reducing the service, neglecting some facilities or services, or increasing our rates to provide that service.

Cost shifting is a real problem for our communities. It covers a range of services, as I mentioned, from home maintenance, Meals-on-Wheels, senior citizens services, Home and Community Care, and maternal and child health. Those simple examples I gave you earlier were cost shifting in the last five years of \$160,000, which equates in Corangamite Shire to a little over 2 per cent of the rate increase—and that is an increase just to maintain the same level of service. So what do we do about it, and how do we address it? I am sure your committee is facing that challenge right now, and I am sure you have heard a lot of different input and comment about how things might be addressed.

I have a couple of concluding comments. There perhaps should be more local government involvement in determining services and service scope, and in making decisions that have a flow-on impact to local government, such as mass limits for transports. Perhaps there could be a reduction in some areas of overlap or duplication of service delivery between various levels of government, such as in the health service area, where all three levels of government provide different services. There may be an area that your committee could address, in relation to the maintenance of real and ongoing levels of funding, so that local government can provide long-term planning. One of the difficulties is always a program or level of funding that is short-term or, at best, medium-term. A very positive outcome for our council and across the region has been the Roads to Recovery funding. It has been a very positive thing, but the difficulty we have is the uncertainty of ongoing planning and maintenance beyond the program's current time frame.

The provision of a flexible funding model in relation to local government, where we can provide the sorts of services and facilities that our particular community requires, is most important because, right across Australia, the character of local government varies depending on the location and the make-up of that community. A simple example for Corangamite Shire is in-venue child care. We have come up with a number of innovative ways to support our local community and our local families. That ranges from in-venue care, where the service is provided in the service provider's home, in the child's home or in a central location, such as a maternal and child health centre. We need to be able to have ongoing funding that provides us with the flexibility to provide the best and most appropriate level of service at the local level.

My last comment in relation to funding comes back to the infrastructure and local roads in our area. We believe that it is critical that the federal government, the state government and local government work closely together in relation to appropriate levels of funding for local roads. In Corangamite shire, the dairy industry is the key to the economy. It is also one of our major export markets. To be able to be efficient and competitive, we need to have proper infrastructure to support our local community. Thanks for the opportunity, Mr Chairman.

CHAIR—Thanks, Mr Johnston. Mr Jakob from Moorabool Shire is next.

Mr Jakob—Mr Chairman, thank you for the opportunity to present ourselves. Apologies from our mayor and CEO, who are in Canberra at the moment chasing some funding for the council—which seems to be the way it goes at the moment. I do not intend to go over the

ground that has been covered today; I will give a little information about Moorabool and some of the things that we focussed on in our submission.

Moorabool is a regional-rural council. It starts 40 kilometres west of Melbourne and runs through the city of Ballarat. We cover 2,100 square kilometres of area. It is a growing municipality. It enjoys the benefits of being close to a regional city, Ballarat, and the metropolitan city of Melbourne. Our community is largely based on lifestyle, agricultural and major small business. Our operating budget is roughly \$23 million, and 42 per cent of that comes from our rates, fees and charges. Predominantly it comes from our residential ratepayers, as we do not have a major commercial or industrial base to cross-subsidise that particular sector of our community.

In our submission we tended not to focus on the special purpose grants, because that subject was being well attended to by the municipal association and our colleagues, as has been noted before. We have actually tried to identify that there are some other softer sides to cost shifting which come through a number of government policies, both state and federal, relating particularly to regulatory environments, such as town planning—and we heard before about food control—and coping with things like changes to taxation systems, such as the GST. One of the things that the council was keen to identify and put forward was the extra resources required to cope with both state and federal governments putting out program based funding, which is largely on an application based approach. We are finding as a community that, to secure funding now, we have to have substantial resources in house to facilitate the types of projects and programs across our community and then bid amongst other councils going for the same sort of money. All those forms are really soft forms of cost shifting and mean that we have no certainty about our funding and have to put a lot more resources into securing what we believe is the right of all ratepayers to have a share of the federal and state tax coffers.

Our recommendations are really focused on those couple of elements. Firstly, we have said that both state and federal governments, when they are introducing policies, should have regard to the impact on the local government sector where a lot of those policies actually take force on ground, and there does not seem to be any recognition given to those sorts of impacts. I refer particularly to the increasing demands on planning and environment parts of council. Secondly, we have said that there is no commitment by either federal or state governments to ensure that there is adequate growth in funding. It is quite clear in all the reports that have been put forward that that is just a way of constraining resources and it ultimately ends up as the responsibility of the local community to try to ensure that those services are being met. Make no mistake: the ratepayers come to the local communities and look to us to ensure that those services are met, as I said before, irrespective of who is delivering them.

Finally, we have made a bit of an argument which we have had for a long time about the Grants Commission funding process, which is a tool that is not well used by either state or federal governments. We have heard about the local roads additional grants funding under the Roads to Recovery program. We believe that that has been squeezed to its limitless point and we would like to see this committee take some approach to recommendations in regard to that, particularly for regional and rural communities in which that particular program of funding is supposed to ensure that those communities have access to funding to ensure that services can be delivered, as far as practicable, to a standard equal to that of the city councils. Our council has been very strong on that matter in saying, 'We don't know why metropolitan councils actually

have access to that funding base.' And it is one way in which we would like to see more funding come into local communities, particularly in regional and rural areas.

So from our perspective we support all the arguments about the special purpose grants and the fact that there has been no continuing addressing of the limitation of those grants and the growth needs of the community in terms of increased funding from aged care right through. We also need to ensure that, when state and federal governments are determining policies and trying to improve standards of governance, accountability or regulation, they have due regard to the effect that that has on rural and regional communities, and particularly on their local government, to actually deliver that on the ground.

CHAIR—Thank you, Mr Jakob. Could I just clarify one point. Were you being critical of general FAGs funding or the Roads to Recovery funding?

Mr Jakob—I think both.

CHAIR—Both?

Mr Jakob—In terms of financial assistance grants, they have only been maintained basically at the CPI. No account has been taken of what has been pushed onto local communities in terms of additional services, which is quite clear. And when policy and programs are put forward, like the Roads to Recovery program, they are put in as a four-year initiative and do not really give due address to infrastructure needs on a long-term basis. So it is in terms of both the amount and the actual short-term nature of some of the adjustments that are being made.

CHAIR—You asked why city councils get it. I have got colleagues here who will give you a very good answer. But thank you, anyway. Mr Jacobs, are you doing the Southern Grampians?

Mr Jacobs—Hindmarsh Shire Council is in the Wimmera and Southern Mallee in the federal electorate of Mallee. Our local member is Mr Piping, John Forrest. It is a dryland farming area. Our 7,000-odd population consists of a high number of farmers, and they produce the good old-fashioned commodities of wheat, barley, canola and other grains—about 10 per cent of the state's production—and 85 per cent of Victoria's duck production. Ninety per cent of our produce is exported. All of our issues are about dryland farming, the diseconomies of low population density, distance, service duplication across urban centres and remoteness.

The median age of our people is 42 years, and that is one of the highest median ages in Victoria. So services like Home and Community Care are of particular importance to our increasingly ageing population. HACC costs us between \$25,000 and \$40,000 a year, which is between one per cent and two per cent of our rates. We question how much longer we can afford that. There are heaps of opportunities for conflict with the medical discharge policies of the Victorian health system, whereby people are allowed to leave hospital early and therefore require HACC services, and that creates a drain on the council's funds. Maternal and child health, again, costs the council about \$20,000 a year, but to our internationally exposed, competitive farmer it probably is important that there is someone around to check that his newborn and family receive appropriate health care.

It is the same for our internationally competitive farmer. With kindergartens we receive a fixed per capita grant, and we run separate kindergarten centres with as few as four or eight

children. We are on a hiding to nothing with the funding formula and the associated regulations which require two staff in attendance at all times, but that service costs us about \$50,000 per annum. The economic rationalists might ask why we do not close a centre which has only four kids. I suppose it is an element of politics; it is a hard decision to ask the hard-working parents of those children to make a 200-kilometre round trip to the next nearest kindergarten service-delivery centre. In fact, kindergartens have become such a difficult problem for the Hindmarsh Shire that we have made a decision to transfer them to a regional health services provider from the next calendar year.

With respect to libraries, we are told that in 1980 the state government paid 71 per cent of the cost of our regional library service. In 2001 it paid 40 per cent of the cost, and that is represented by an additional burden on our ratepayers. But, again, in isolated and remote communities the library service—the bookmobile—which stops by once a fortnight, is a service that is very much looked forward to. With regard to issues that worry us about the future, we believe that there is an additional looming superannuation debt facing all Victorian local government. The state government keeps throwing additional responsibilities on us, as has been mentioned, for areas as diverse as tobacco regulation enforcement, and pest, plant and animal control.

We certainly believe that local government is extraordinarily well placed to deliver services at the local level. Due to our local knowledge, we have an institutional capacity staff—people systems—on the ground. We are more than willing to work in partnership with the federal and state governments, but we need the commensurate funding support to do it. As you can tell, it is a fairly conservative area. In 1973, when the Whitlam government introduced financial assistance grants set at two per cent of personal income tax revenues, our locals may not have appreciated how important that was. Unfortunately, it is no longer two per cent of personal income tax revenues. But we would strongly put to you that local government does need access to a fixed share of a growth tax, such as personal income tax or GST revenue.

Local government in Victoria has been through a hell of a lot of structural reform. That has created some transitional costs. It has certainly turned the focus of councils away from just roads to economic development and working with our highly productive export based economy. Unfortunately, because we are at the end of the Australian government food chain, we will continue to take whatever reforms the federal and state governments throw at us, but we would certainly like to do it in partnership.

CHAIR—Thank you, Mr Jacobs. Mr Price is next.

Mr Price—Mr Chairman and members of the committee, thanks for the opportunity to be present here today. To give you some background, while it may be well known to the chairman of the committee, because it is his place of residence, the shire of Southern Grampians is centred on Hamilton, which has a population of 9,500. The total shire population supports just over 17,000 residents within a total area of 6,700 square kilometres. It should be noted that, in responding to the inquiry into cost shifting onto local government, this council also supports and endorses the submission made to the inquiry by the Municipal Association of Victoria, which presents an overall Victorian local government response to the range of issues under discussion. The Southern Grampians Shire has experienced impacts of cost shifting onto local government similar to those experienced by the municipalities, particularly in Victoria, and therefore it is not proposed to address the full range of impacts that are evident.

The council today is now delivering a much broader range of services than ever before, particularly in the areas of economic and social development, and the environment. Clearly, the continuing development of this range of services is very dependent on Commonwealth and state funding. In a total budget of just over \$22 million, the external grant funding comprises almost 43 per cent of revenue, indicating the significance of Commonwealth and state government funding to council.

Councils in south-west Victoria already cooperate in a number of areas, such as libraries, waste management, tourism, economic development, health and community services. While it is acknowledged that regional cooperation can be important in delivering some outcomes for the community, it must be appreciated that, generally, local communities have their own specific agendas and priorities which cannot be met through a regional approach. Regional cooperation does not generally alter the total funds required.

A significant issue for this council is in financing major regional facilities, such as the regional art gallery, the regional library, the Hamilton saleyards complex and the performing arts centre. Some of the examples of these cost shifting impacts are in respect of the library: the contributions of state and local government have moved from a balanced position in the 1970s to the current situation where there is far greater reliance on local government. In fact, the Glenelg Regional Library Corporation statement indicates that the state government contributed 28 per cent of the recurrent revenue, and the participating councils—that is, Southern Grampians Shire and Glenelg Shire—contributed 65 per cent. This funding inequity is clearly placing the future of libraries at risk.

In terms of the Hamilton Regional Art Gallery, the funding has not increased at a state government level since 1990-91, and since that time the contribution by council towards the operating expenses has increased from \$130,000 to \$270,000. In view of the national significance of such a collection, much of it derived from private donation, the core funding from state governments should be substantially increased and indexed on an annual basis. Other areas where cost shifting is evident include the Hamilton Performing Arts Centre, where the recurrent state government grant has increased only marginally from the early 1990s, and this has impacted on the development of enhanced programs at the performing arts centre. In fact, state government support has significantly decreased in real terms. While the council has been appreciative of the Roads to Recovery program, there is still significant expenditure to undertake to address the continuing deterioration of the shire's road network.

One of the major issues for this council is that the increased role for local government has come with a limited capacity to increase revenues, and this has obviously been further constrained by the cost shifting onto local government. The Municipal Association of Victoria, in its submission to the inquiry, concluded:

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.

... ..

There are substantial differences in the revenue profiles of councils and their ability to generate own-source revenue.

CHAIR—Thank you for that. We turn now to Mr Cornish of the Pyrenees Shire Council.

Mr Cornish—Thank you. We have submitted today a written paper which deals with the terms of reference of your review. But today we would like to concentrate on perhaps one or two items from the paper that go to viability—particularly that of small rural councils such as Pyrenees. I will give a quick snapshot of Pyrenees. It is on the west side of Ballarat. It has an area of 3,500 square kilometres; a population of 6,600; a local road link, which is a critical component, of 2,000 kilometres; a total revenue of \$9.5 million; and a total rate revenue of \$3.38 million or 31 per cent of our total income.

Our community ranks maintenance of roads as its highest priority, so that gives you an idea of where Pyrenees is coming from. Those roads are needed on a daily basis for access, but they are also critical for economic development. As we heard earlier today, farming establishments, and also timber and winery establishments, need to have good infrastructure access to be able not only to continue operation but also to expand and to encourage other businesses into the area. Council at the moment spends 45 to 46 per cent of its operating expenditure on roads, and so you can get some indication of where council sits in regard to the importance of that access.

We also have increasing demand for human services, such as HACC and public libraries. These services, as outlined in our paper, are presently exposed to cost shifting. Whilst concern does exist with cost shifting in particular libraries within Pyrenees, we have a fundamental problem with respect to funding that will not be totally satisfied with the total removal of cost shifting. The viability of local government depends on addressing this problem and the problem with regard to the recurrent funding gap that exists, which is made up of a significant underspend on asset renewal. The question is whether that gap can be met from council rates. In our situation, that funding gap is \$3 million a year. I have actually submitted an article from the *Weekly Times* which lists every council in Victoria—and Pyrenees has the honour of being the lowest council on that listing. Under the heading ‘Road funding surplus’ or ‘Shortfall per resident’, it is indicated that the shortfall is \$442.81 per resident, and we sit on the bottom of that list. So you can see the importance of that road funding for viable local government. I guess that gets back to the capacity of our council to raise additional funds from rates.

As indicated earlier, our local government went through an extensive reform process in the nineties. But, on the other side of the equation, the property tax system we currently raise rates from is affected by lower household incomes within a rural based municipality and also lower property evaluations. To give you an indication, a one per cent rate increase in Pyrenees Shire raises \$27,000. So what council can do with rate increases is fairly limited. Therefore, if council is to continue providing its core services, including HACC and other services, restrictions on local government income are not easily addressed without major reforms of the Australian taxation and intergovernment financial relations. Taking on board the MAV thrust, the simplest solution is to increase the quantum of funds through the existing financial assistance grants, or the FAG process. This process is capable of responding in a sensitive manner to differing local government sectors in each state. A source of growth for FAGs could be a proportion of income tax and GST receipts. We are arguing today that we need to look at the overall funding mix that exists between state, local and federal governments and try to get a more equitable approach to cover service levels within our council. I will hand over to Mr Gray, who will look specifically at one item in our council with regard to public libraries, and we will work from there.

Mr Gray—The Pyrenees Shire is a very small shire. We have two major towns—Avoca and Beaufort. One has a population of 1,200 and the other has 1,000. From a strategic point of view, what we have been looking at is trying to provide appropriate services within the towns so

people are not disadvantaged by their geographic location. As the chairman will be aware, in Beaufort and Avoca we have co-located libraries with visitor information centres, shire services, community enterprise centres and meeting rooms, because that is the model that works. As other members have indicated with regard to the library, the reduction in funding has impacted adversely on the hours of operation. We have tried to use volunteers, which is the norm in visitor information centres, and we have hit an industrial problem trying to use volunteers to do what paid staff are doing. This seems to be a common attitude. Volunteerism is very strong within the rural communities—as demonstrated by involvement in fire brigades, sports clubs and whatever—mainly because we just do not have the money.

Another point I would like to make is in terms of bidding for some of the funding that goes through with a lot of the grants that are created. A lot of the funding grants that are dreamt up in Canberra or in Spring Street are usually done in complete isolation from local government. There often seems to be no strategic fit associated with the program and what local government does. Usually when it comes out you sit around saying, ‘How can we modify this project to fit into this program?’ because we are desperate for the funding.

A lot of these programs are more about process than outcomes. I reiterate the point that Stephen made—a one per cent increase is \$27,000. We get money to build facilities—the basic infrastructure, such as community resource centres—but we do not get money to operate them. The expectation in the community is that they will be operated to a standard that they expect, and that is the continuing problem. We balance, obviously, roads and our service delivery.

CHAIR—Thank you for that.

Resolved (on motion by **Mr King**):

That the submission from Pyrenees Shire Council be received as evidence to the committee’s inquiry into local government and cost shifting, and authorised for publication.

CHAIR—I thank everyone for their submissions. We were commenting before that they are quality submissions; they are greatly appreciated. I think you have listed everything except HACC funding and I was wondering whether you had any indication about that. You said there was top-up money but you have not said how much.

Mr Johnston—In relation to HACC funding, I spoke about maternal and child health as a specific example, as well as library funding, and then I spoke about the running of senior citizens centres. The submission does not contain a figure in relation to HACC funding, but I can certainly provide that information.

CHAIR—If you have an indication—

Mr Johnston—We can certainly forward that to the committee.

CHAIR—Did someone else want to comment about HACC funding?

Mr Merritt—It should be acknowledged that the Commonwealth has kept pace with CPI in the last year with respect to HACC funding, but the increasing nature of home care needs—that is, local governments are increasingly taking on the higher needs end as opposed to what you

might call the preventative health end—accounts partly for the fact that there is a high demand for home care and local government is simply not receiving funding that is equivalent to the increase in demand. Also, the ageing population must be taken into account. As was indicated in our submission, our total expenditure on home care services is approximately \$1.16 million and the proportion of grants to deliver that recurrent service decreased from 82 per cent to 62 per cent over the past four years—and that is basically to maintain the current service. It is not increasing; it is simply a matter of holding our own. Obviously, with the ageing population, there is an increase in the care loading for complex and higher needs.

With respect to Warrnambool, services are directly funded by the Commonwealth for veterans' health care. Approximately \$200,000 worth of grants come direct from the Commonwealth to supplement that particular needs program that is a subset of HACC. The administration of that works very well. We are accredited to deliver that level of service, and we receive those particular packages direct from the Commonwealth.

Ms BURKE—Is anybody running their own nursing homes? You do not have any council-run aged care facilities?

Mr Merritt—No.

Mr NAIRN—Mr Jacobs, in the Hindmarsh Shire Council submission you talk about the competition between the Commonwealth's community aged care program and the state's linkages program. Are you referring there to the packages for looking after people in their home or are you talking generally? Coming from New South Wales, I do not know what that state linkages program is. Could you just explain what the conflict is?

Mr Jacobs—They are Commonwealth and state initiatives based around the same set of clients. Our staff are administering two sets of programs, two sets of funding rules and two sets of eligibility criteria, which entails double and triple handling.

Mr NAIRN—To do the same thing?

Mr Jacobs—The programs are based around the same set of clients.

Mr NAIRN—The same clients—but to do the same thing?

Mr Jacobs—That is my understanding. There are some elements of duplication.

Mr SOMLYAY—A point of clarification: Mr Merritt, you spoke earlier about compliance costs and then you talked about the DVA grants that you administer. Are you saying that you have compliance costs over and above the value of those grants? For instance, if you are administering the Regional Solutions Program, Regional Solutions should cover your costs and so should the Regional Assistance Program. I know it is not the intention of those programs to put any impost on council. They should be fully funded, without there being any cost shifting through compliance costs. Could you clarify that compliance cost comment, please.

Mr Merritt—I do not think I referred to those particular programs.

Mr SOMLYAY—No.

Mr Merritt—When we referred to compliance costs we were broadly referring to areas where local government has a higher degree of reporting and regulatory responsibility. For example, national competition policy, even though it has very desirable objectives, obviously adds to the plethora of compliance and reporting responsibilities, which have a cost that has to be recovered. There is no external funding for that; therefore our rates have to go up to cover those added reporting and compliance requirements.

Mr SOMLYAY—But the DVA program funding is not putting a compliance responsibility on you? Is it funding your total involvement?

Mr Merritt—The short answer is yes, it is funding the direct costs.

Mr NAIRN—Does the Victorian government pass on to local government any of the national competition payments that it receives from the Commonwealth?

Mr Jacobs—Yes.

Mr KING—I want to ask you about HACC. You will have to forgive my ignorance about the way these programs are delivered and funded. Mr Merritt and Mr Jacobs, do your councils deliver these programs?

Mr Merritt—Yes. HACC is a very major program.

Mr KING—Can you tell me what you actually do and how many people you employ?

Mr Merritt—HACC broadly consists of a number of programs, including direct home care—

Mr KING—Is this Meals-on-Wheels?

Mr Merritt—Meals-on-Wheels, home maintenance and respite care are the major components under the HACC packages.

Ms BURKE—It also includes home visitation for showering, dressing and those sorts of things. It is about keeping people at home and out of the nursing homes.

Mr KING—So the money you get comes from the state but is from the Commonwealth; or does it come from the Commonwealth through the state? How does it come to you?

Mr Merritt—It comes via the state. As I said, we get a separate package for veterans' care, but that is obviously for specific reasons. There is a unit cost. As I recall, the local government's proportion was about 20 per cent. But I think the MAV submission claims that it is now in the order of 30 per cent.

Mr KING—The program is obviously a worthwhile one.

Mr Merritt—Without a doubt. Twenty or 30 years ago, it was more broadly for preventative health purposes to help aged people lead active and productive lives. It is now aimed far more at the higher-needs area of helping people stay in their homes as opposed to hospitalisation or other forms of intensive care.

Mr KING—That is a reflection of a policy shift, apart from anything else. Theoretically speaking—perhaps you have answered this; I cannot remember now—would this program be better funded and administered if there were a direct relationship between the Commonwealth and the local authority?

Mr Jacobs—Yes.

Mr Merritt—We believe there is evidence that it would be better. We have direct experience of that with the veterans care component, which is exactly the same service but delivered to veterans.

Mr KING—Does it work well?

Mr Merritt—Yes, in our experience it is working well, although we have only had that for two years.

Mr KING—I think the chairman asked you about the quantum of costs and so on, and I think you gave us some figures on that. Did you give us an in globo figure of the cost to the program for you to deliver it each year?

Mr Merritt—The overall home care service, which is direct care in the home and home maintenance, has a total cost of about \$1.16 million per annum, and there are other components such as Meals-on-Wheels and respite care. I do not have all those figures with me but they are obviously of a lesser amount.

Mr KING—Mr Jacobs, is your experience similar?

Mr Jacobs—We would welcome the opportunity to receive funding direct from the federal government for that service, and I think it is fairly self-evident that removing one bureaucratic layer would result in significant cost savings. In our small rural shire we spend \$351,000 a year on HACC services. The grants received are \$280,000, and there is some fee income. The net deficit in the last financial year was \$24,000.

Mr KING—I do not know whether any other councillors are prepared to comment differently. If not, I do not want to ask anything further.

Mr SOMLYAY—Are there any other programs like HACC, funded the same way, for which you would prefer direct funding from the Commonwealth? Do you have any comments?

Mr Merritt—No.

CHAIR—While you think about that, maybe we could take another question.

Ms GAMBARO—I would like to continue with questions on HACC. Mr King was asking some questions about direct Commonwealth funding. This question is for Mr Merritt and Mr Jacobs. Federally, we provide funding to the states for post acute care in hospitals. I think one of you quoted figures about the increase in the number of people for whom your HACC services provide care. Is that because of the increase in the number of people wanting HACC services or has there been an increase in the number of people who are being released from hospital probably a little bit earlier than they should be? Again, I welcome some comments from any of you who have experienced post acute care not being delivered or people being discharged earlier than they should be.

Mr Merritt—I do not think I am qualified to judge whether people have been released prematurely from hospital, but I think it is a fact that people spend less time in hospital for operations now than they did 10 or 20 years ago, and the home care service is a vital part of their recovery. So to my knowledge, yes, there has been an increasing tendency for local government to assist in that post hospital recovery stage through home care.

Ms GAMBARO—Does anyone else have a comment to make on that?

Mr Jacobs—The volume of clients is increasing because of the general ageing of society. It is a vital program for the nation, because as taxpayers we just cannot afford enough nursing home beds, and the cost of maintaining a person in a quality lifestyle in their home is a better option for both the individual and the taxpayer.

CHAIR—To follow up, you mentioned the cost of bidding for funds through programs against other councils in the region. Have you had the opportunity to pool your interests and apply for funds on a regional basis?

Mr Jakob—No.

CHAIR—Is it possible to explore that?

Mr Jakob—I am not quite sure that it would be. As we have said before—and the point has been made on a couple of occasions—most communities have their own needs and desires and at different levels. You are generally trying to work with your communities to ascertain what infrastructure resources need to be put into those communities. Communities are developed to different levels; for example, in our community, we probably have 30 villages and hamlets that require a lot of recreation hall support and other facilities, and then we have a town like Bacchus Marsh, which now has a population of about 15,000 people. In a 10- or 15-year period it has gone from a small rural town to a big town, so it is looking for big facilities. So it is hard to see how those grant programs would be able to be matched. There have been efforts, as was mentioned before, regarding regional library corporations, and those sorts of facilities have been made regional.

It is hard to see how a strategy for one community or one shire would be able to be matched with the strategy for another shire in regard to those programs. One example we are working on federally at the moment is the television black spots program. Each community has different television problems, and two years later we are no closer to solving them. That is one example of governments trying to solve a problem where communities have to take it case by case.

CHAIR—Does anyone else want to add something on that question?

Mr Anson—Many of the government programs, particularly state government programs, are extremely targeted. Grant applications that are made need to be really fine tuned—you need to finely tune your ‘grantsmanship’ ability to meet the target groups. An example was given concerning Brophy Family and Youth Services, a local community group that made 15 submissions to the state government department in a 12-month period. That is one organisation making 15 applications to a state government department of human services. The cost tied up in making the applications and the cost tied up at the other end reading the applications represents a considerable waste of time. In addition, the short-term nature of the grants, which are often 12 months to two years duration, means that there is no possibility of getting sustainability into organisations. Many organisations are into a grantsmanship scramble, where it is just one application after the other. A lot of the resources go into applying for the grants rather than into delivering services.

CHAIR—Were those 15 all for similar funding?

Mr Anson—They were all in the youth area, yes.

Mr Jakob—Moorabool Shire Council over the last few years, in trying to re-resource ourselves, have had to create a community development unit to cope with the variety of grant programs that are offered by the state to secure sport and recreation funding, infrastructure funding and other needs. That unit is costing us probably \$80,000 to \$100,000 a year. We have been successful—we have got a couple of million dollars worth of grants—but it is not a very effective way to go about business.

Ms BURKE—Leading on from those areas, a couple of you commented on the kindergarten with four children. Is there an issue here about managing community expectations? I represent an electorate that includes Monash and Whitehorse councils. If you want to look at your little map about road funding, just look at the numbers of people. I know you cannot draw the parallel because they are big metro areas, but there has to be some sort of realisation amongst us all about managing community expectations and about the political reality that we sometimes cannot do things. As federal members of parliament, we live with that, and our state colleagues also live with that. I know local government lives with that, and it is often far more in your face, because you are representing people who probably all know you by name or who know you personally. I know it is a lot harder, but does there come a point where we have to say, ‘It would be really nice to do it, but it can’t be done. We’re never going to have the funds to be able to do it’? Is there some point where we have to say either that we can or cannot manage a community’s expectation? Where do we draw the line? How long is the piece of string meant to be? I am looking for a general answer from anybody.

Mr Johnston—I suppose another way of looking at it is that we are all Australians, we are all living in the one country, and it is a matter of whether we should be providing a minimum level of service whether you are infant, middle aged or more elderly, no matter where you live. Shouldn’t we all have reasonable access to library services? Shouldn’t we all have reasonable access to health care services, whether we live in Melbourne, Sydney or one of the fairly remote areas of Australia, within a reasonable distance? The question that you ask is a difficult one. We all deal with it at different levels. For us to be a vibrant people, we need people living throughout the area and doing some sort of task or providing some sort of information or work.

Maybe we should be saying, 'You can get access to telecommunications to a certain standard and you can get access to child care and health services no matter where you live,' and move from there.

Mr Jacobs—I would ask the question: why is local government involved in delivering the first year of a child's education, when we accept that education is a state responsibility? Not all councils in Victoria are involved in delivering kindergarten services. If any of them were thinking about it and they asked me, I would tell them not to do it.

Mr Merritt—Councils are constantly trying to manage what you might broadly call the conflict between wants and needs. For example, in our municipality, we have a waiting list of about 140 for long-day child care. That is really a reflection not of population growth but of changing patterns of work and the need that goes with that. Having good child care is a key ingredient towards attracting people from elsewhere to live in Warrnambool. Our council has not been in the position of just going out and finding money to build a new child-care centre; we are basically trying to come up with innovative solutions with the private sector—almost a partnering arrangement—to enable that need to be met in what is actually a deregulated industry. Our council will still have a role, but we are very much trying to encourage and help the private sector to also become part of the total service system. Local government has to do that. I think many councils will be challenged to look at how they can increasingly share, in a resource sharing sense, back-of-house services that are relatively invisible to the public. I am talking about IT, asset management systems, insurance, staff training and all those back-of-house things where there is certainly scope for efficiencies and economies of scale. That is particularly relevant in regional areas where councils typically will not have the specialist staff in many of those fields.

Mr KING—Mr Anson told me at lunch that, in Warrnambool in particular, you have an employment issue—that is, you are trying to attract people into this area because you anticipate 6,000 jobs becoming available in the next few years. I commend you on that sort of initiative. I just want to follow up this issue of direct funding. The issue of library services was raised. I thought that was a state issue. I would like to know to what extent the state funds public libraries in the local authorities that are here giving evidence. Is it 100 per cent? Fifty per cent?

Mr Merritt—I do not have the exact proportions but, traditionally, there has been state government funding; however, the real value of that funding has probably dropped over the last 25 or 30 years. Local government is constantly making those overtures to the state, but the state has not increased its general library grant. What it has chosen to do is to introduce one-off grants for certain initiatives or projects. Yes, there has been cost shifting over the years in libraries but, increasingly, the state says that, while it helped to that degree years ago, it believes it is more of a local responsibility.

Mr KING—I would have thought that library services were a very important service that local government provides. The issue of cost shifting in relation to library services is quite a serious one.

Mr Price—The Glenelg Regional Library Corporation, of which Southern Grampians Shire and Glenelg Shire are members, has seen a substantial shift in funding since the late 1970s, when state and local governments generally contributed a similar proportion. The funding in the last year, as I mentioned earlier, is such that the state government contributed 28 per cent of

recurrent revenue and both local government councils contributed 65 per cent. Certainly, in the case of the Glenelg Regional Library, it is placing the future of the library at risk.

Mr Jakob—For some of those figures, you might refer to the MAV's cost shifting report. On page 20, it provides a graph of movement in real library funding per head of population. It has gone from an equal share, as has been mentioned by other members, of around \$7 to \$8 per head, with a cost per head of about \$15, to a cost per head now of around \$23, with local government contributing almost \$15 of that per head. So state funds have barely gone up or have remained stable.

Mr Mostyn—Mr King has pursued the issue of direct funding between federal and local government fairly strongly. I think everyone would agree that local government has matured greatly over the last seven years in Victoria. It is very much in control of the situation here. It would be able to deal directly with federal government—and it would like to deal directly with federal government—as it has done with the Roads to Recovery fund. The Roads to Recovery fund has received a lot of kudos; it has been well received across Australia. I understand that DOTARS is presently doing a study, or has completed a study, that shows very strong kudos to the federal government. However, a lot of the direct funding is more complex than that. HACC funding is a good example. It is my understanding that HACC funding is not 100 per cent federal; it is matched funding. It is matched to the degree of 40 per cent by the state, of which that percentage is apportioned in kind to local government. My concern is that, with respect to direct funding from federal to local government, with us being at the end of the food line, the state government will see this as an ideal opportunity to withdraw from matching the funding. I make the comment that, really, we would need to be careful about some of the program's funding coming directly from federal to local government.

CHAIR—One of the conditions in our terms of reference is that any recommendations from the committee should be revenue neutral to the Commonwealth. So, as you can see, there is a restraint there.

Mr Mostyn—That has been observed, Mr Chairman.

Ms BURKE—On the issue of direct funding linkage, one of the things we have been exploring with people, and a couple of you have already mentioned this, is the notion of accreditation—that, to deliver a certain service, councils could go through an accreditation process and get the money directly. I have not heard the comments elsewhere but, when we were in Western Australia, a couple of councils were a bit dubious about how other councils were using their Roads to Recovery money. They would raise their eyebrows and say things like, 'We wouldn't use that money to seal that road, but that lot have,' which I have not encountered elsewhere. I do not want you to dob each other in—that is not what I am talking about—but has anybody thought about the notion of going through an accreditation process and getting a basket of money to do X, using the money to do X and having the ability and the competency to do that? Does anybody who has thought about that have some comments to make?

Mr Jakob—In Moorabool's case, and in areas like family day care, there are accreditation programs that people have to deal with. On infrastructure funding, the municipal association and local government are implementing with DOI, the Department of Infrastructure, an asset management program, which is another benchmark level. It can be useful to attach funding to

proper strategic plans and processes; but, for rural and regional councils, it is often a hard ask to get that core level of skill and competence in the system to be able to do that sort of accreditation process.

CHAIR—Mr Mostyn mentioned funding and specific purpose grants. How would you rate the Roads to Recovery model as a means of delivery of Commonwealth funding for other purposes?

Mr Mostyn—It works well with roads. We need to be careful of the programs we talk about, because of the likelihood of the states withdrawing their contribution. If they see direct funding from federal to local government, that may well be a good excuse for the state government to withdraw their funds.

CHAIR—I have heard this nervousness from everyone. Does anyone else have a comment?

Mr Jacobs—Roads to Recovery is a tied grant. It is a proportion of the local roads part of the financial assistance grant.

CHAIR—No; it is separate.

Mr SOMLYAY—It is over and above.

Mr Jacobs—Yes; but it is based on the local roads formula as part of FAGs. I appreciate that it is additional funding, but it is a particular percentage increment above each council's local road funding, as part of the FAGs. It is tied. Each council, as the responsible level of government, has the ability to choose how that funding is best spent within its local area. Then there are the accountability requirements. As a system it is good, and the additional funding is enormously important.

Ms BURKE—I take it that the formula for getting it could have been better: more money on the basis of need? Am I reading into your answer?

Mr Jacobs—In a small rural shire, we could always put up a case for regional funding for roads, but I used to work in the old Boxhill City Council and so I am aware you also have a few local road issues there.

Mr NAIRN—From Mr Mostyn's answers, you seem concerned that, if there were direct funding, the states would then pull out. But surely what you would be looking at in a direct funding sense is that the money that is currently going from the Commonwealth to the state through all sorts of areas—GST payments et cetera—would come direct as part of that. That is what we are getting at when asking the questions. At the moment some of these are partly federally funded and partly state funded, but it all goes to the states and then it comes to local government. We are saying that, instead of doing that route, it could come direct—not just the Commonwealth's share of it but the state's share as well.

Mr SOMLYAY—We could withhold revenue from the state and give it direct to local government.

Mr Jakob—If we could get guaranteed access to a growing revenue stream, that is what we are after. To take the routes, as you are saying, through the various tentacles—

Mr NAIRN—No; I am saying we are getting rid of that.

Mr Jakob—That is what I am saying. If we could go to another direct route of known revenue streams based on comparative need, that would be the best way to go.

Mr KING—Are your rates capped?

Mr Jakob—Our rates are not capped at the moment, but that does not mean that a government could not come in and cap them. At the recent election the opposition was proposing to do that. We have been through rate capping. It was evidenced in our submission. We are still recovering from that. It was nonsensical.

Mr KING—What about the reference to the recurrent funding gap, as I have seen in some of the submissions? What is the source of that problem?

Mr Jakob—All the cost shifting. You could appropriately put it down to that.

CHAIR—There is a question that I would like to put to the panel. You would be aware that the Victorian Department of Infrastructure's 1999 paper *Future directions and action plan* suggested nine criteria to assess whether councils could be regarded as contemporary and effective. Would you support a system of accreditation of councils along these lines—that is, where there is a demonstrated ability to perform at a particular level to a specified standard, in return, with accreditation, you would then be able to deliver fully funded services on behalf of the Commonwealth?

Mr Merritt—Local government generally would regard it as being a recognition—particularly in Victorian councils—of the added maturity in the standard of delivery and the accountability that runs with that. Naturally, if there were direct funding, there would need to be a higher degree of accountability. In broad terms, I would think that accreditation would be a reasonable part of ensuring that accountability.

CHAIR—Would anyone else like to comment?

Mr Johnston—It is also fair to say, though, that local government in Victoria has so many rules and regulations, key performance indicators; best value legislation and our own community monitoring through triennial elections that we can get caught up in trying to tick off standards, procedures and systems when we are really there to provide a service. Too much red tape can actually drown you and you can lose the focus of why you are there. There needs to be a balance. It is fair to say that, in general terms, if there is an issue—whether it be something that is funded by the states that is not appropriately administered, something that is funded by the federal government that is not appropriately administered, or something that is funded from our own rate base—our own community is a very good monitoring mechanism, and it is soon brought to the attention of the relevant people. Whilst I understand that there would be need to be systems, procedures, monitoring and sign-off, I think it can go too far.

CHAIR—I am talking about national accreditation, not something at a local level. It would be across the board.

Mr Jakob—To support the comments that were made before, I think that, as with any form of accreditation, there are costs involved in dealing with it.

CHAIR—There may not. Once you have accreditation, you do not have to go through all these procedures that you have been talking about.

Mr Jakob—If I understand it, you are talking about your accountability costs being reduced because you are an accredited association or something. That could be fair. But there is a benchmark cost to deal with becoming accredited. I think we put fairly clear evidence in our submission as to the increasing cost of governance for a community in terms of financial accountability, corporate management, council governance and so on and so forth. There are base costs associated with that and they need to be recognised. Sure, the outcomes could be better at the end of the day, but there are costs to get there—they do not just happen.

CHAIR—I think Mr Merritt said that here in Warrnambool there were 15 applications in a year. What about the compliance costs of that? Are we talking about trying to get rid of some of that?

Mr Jakob—I certainly would agree, in terms of program costs. That is certainly a valid way to go. Direct funding is probably the best model to apply. But, in going to a direct funding model, you need to consider the benchmark costs to get to those outcomes. As another example, with the new insurance requirements and risk management costs that councils are going through, we are all finding that it requires human resources, systems resources and others. While there will be a long-term reduction, there are benchmark, base level costs that you have to invest in. What I am saying is that they need to be considered as well. I do not think they are excessively high or would outweigh the benefits, but there is a transition cost to get from point A to point B.

Mr Jacobs—As I emphasised before, local government has been through a lot of reform in Victoria and has a much better institutional capacity. We deal with a lot of paperwork and bureaucracy at the moment. We do it successfully and we deliver the programs. If it were the case of a council bidding against its local health service for the right to deliver Home and Community Care services, may the best and most accredited service provider win.

Mr Mostyn—My only comment would be that—and I have been involved in health services, hospitals and the like over a few years—to obtain accreditation can be quite an expensive exercise, and you need a staff structure and an overall structure to meet it. However, having said that, I am not against accreditation but I believe that the devil would be in the detail.

Mr Cornish—We are a fully accredited organisation with occupational health and safety and quality endorsement, but there is a cost that does come with that accreditation being achieved, monitored and obtained over a number of years, taking on board previous comments. We can achieve those results, but there is an added cost to the organisation.

Mr Gray—The point I would like to make is: who would set the accreditation standards? It has been demonstrated through comments that have been made that bureaucrats are going to set

the standards. That is going to be done in isolation from local government. The capacity of some of the councils to achieve that accreditation—once again, that has been demonstrated here—is going to take resources, and maintaining that accreditation is going to require resources.

Mr Anson—I would like to say something on accreditation. We currently invest our resources in acquittals. My view would be that a move to accreditation would be a move to giving us greater autonomy, rather than the situation at the moment where we enter into a detailed acquittal process, and I would have thought the resources tied up in acquittals would be greater than those tied up in an accreditation.

CHAIR—Do you have a question on that point?

Mr NAIRN—I have a question on something else. You mentioned before the national competition payments. How does the formula work for that on a council by council basis, and how do you ultimately get that money delivered?

Mr Hayman—Every council gets a base and then it is based on population over and above the base. So in this current financial year every council gets \$150,000 plus an amount based on population.

Mr NAIRN—Right across Victoria—it doesn't matter which council?

Mr Hayman—Subject to meeting certain criteria.

Mr Cornish—We have to meet criteria with best value implementation, and two or three other criteria that have to be signed off at the end of each year.

Mr NAIRN—Thanks—I meant to ask that before. What is the situation in Victoria with nonrateable land? Do government business enterprises or similar types of organisations pay rates to local government?

Mr Jakob—This a timely question: our council is looking at that at the moment. There are certain exemptions under the Local Government Act, and that excludes government bodies. Currently, water authorities or government corporations do not pay rates, and there are other exclusions through other acts for cultural and recreational land, but they can be rated and there are various rating strategies. So, generally, educational institutions, charitable institutions and government bodies are not paying rates to councils.

Mr NAIRN—The water authorities and things like that are presumably complying with national competition policy, so they would be incorporating a rate cost within their structures, but that does not get passed on; is that correct?

Mr Jakob—I cannot answer that question, but it is possible.

Mr Cornish—I guess one of the issues that has arisen is plantation development—whether it is a private sale of that land or, of recent times, to Hancocks and other organisations where there has been a concern about valuations and actually the extent of rates that are raised for that land.

Mr NAIRN—So has that gone from state forest to private?

Mr Cornish—It is still crown land, but the actual development on the land, being the plantations, is sold to private companies.

Mr NAIRN—So it is still not rateable?

Mr Cornish—It is still rateable but it cannot—

Mr NAIRN—It is rateable?

Mr Cornish—Yes, it comes back to the argument of what that rate or value is with plantations and definitions under the act.

Mr NAIRN—Thank you.

CHAIR—A number of submissions came in on the local government's role in policy development. What do you feel you can do in policy development to get heard and to have the expertise that is around utilised in policy development at a Commonwealth level?

Mr Merritt—Traditionally, most of the local government's input is initially through the peak state body—the MAV—and sometimes through the Australian Local Government Association. If there were direct funding, there would certainly need to be new mechanisms and new ways of working in partnership to look at policy development. The MAV submission brought that out in a number of areas. We are dealing with a paradoxical situation: the Commonwealth is in the best position of raising taxes and often local government is in the best position of delivering relevant services to local communities but has very limited taxation powers. Financial arrangements between levels of government, as we understand it, is a key issue of this inquiry.

CHAIR—I guess you are talking about policy development as well. Does anyone else want to input?

Mr Jakob—There is a need through policy development to have an impact statement on local communities or local government. Whether the local governments are capable of responding to the number of policy developments that seem to be coming out at both the state and federal level is a question in its own right. Perhaps it is a case of the effectiveness of the state associations. But it does not appear that on some of the policy developments that are coming out there is no consideration of impact at the local level, particularly on the local government sector.

Mr SOMLYAY—On the question of local government borrowing money: I know it is different in every state, but in my state of Queensland I have a shire that is debt free. I have another shire that has a debt of \$160 million. What is the situation in Victoria? Can councils borrow and does cost shifting result in borrowing by local authorities?

Mr Jacobs—There are number of fiduciary ratios applicable to local government borrowing in Victoria: indebtedness as a proportion of our rate revenue and repayments as a proportion of our rate revenue and realisable assets. Whenever a council nears the upper limit of one of those

triggers, additional requests to borrow will not be looked upon favourably. We have to submit our borrowing program to the Victorian Department of Infrastructure Local Government Division each year, but we make our own individual borrowing arrangements with lenders. In Queensland there is a central Queensland government pool for local governments to borrow from. Also, we do not look after water or sewerage, so our borrowing needs are not as great as those of some Queensland councils. The MAV submission pointed out that our greatest problem is our infrastructure gap. A much greater problem is that we are not appropriately reinvesting in our infrastructure for the future to keep it at current levels of serviceability. Cost shifting is but a part of that. Typically, when we are faced with inadequate revenues—this is purely a personal opinion—our infrastructure program will suffer. We do not borrow to pay current recurrent expenditure.

CHAIR—I want to come back to this question of policy. If you have a problem in western Victoria—west of Ballarat or east of Ballarat; wherever you like—how are you going to get that problem heard? It is all right to say that the MAV will take up an issue, which I am sure they will do, but they will tend to want to look at it from a state-wide perspective because that is the nature of the organisation. How are we going to get that sort of input at a regional level, saying that the policy has got to change here or there? Does anyone have any suggestions?

Mr Johnston—We approach our local member.

CHAIR—I know that!

Mr Johnston—And we hope he does a very good job to get that heard.

CHAIR—I suppose I asked for that.

Mr Cornish—Other than our local member—which is of course you, Chair—we looked at the issue and set up a subregional development board with a grouping of three councils, the Grampians Pyrenees Regional Development Board, which is looking at a number of issues that affect that subregion. So we have taken that on board and we are looking at trying to overcome some of the issues that are being faced by those councils.

Ms BURKE—Given that we are looking at the broad ranging issue of cost shifting—some of you made suggestions in your submissions, and we welcome those—is there anything else that you want to tell us that can resolve the problem? We have put to you some of the things we have been thinking about. Are there any basic things that would assist?

Mr Anson—There is one issue. It is not directly cost shifting, but it impacts upon the services that are delivered by local government. As stated by a number of us, we are becoming extremely good creatures at obtaining government grants, and the issue that has suffered is our infrastructure. We have been in a position where we have been able to obtain excellent federal and state government money for the likes of Flagstaff Hill, for a whole variety of things—performing art centres, art galleries et cetera. It is usually matched on a dollar for dollar basis. It is extremely hard for councils to turn down that opportunity of getting significant investments in.

The community likes to see—and this refers to your comment about managing expectations—good things above ground, not necessarily roads and drainage. Government

changes expectations by making grants available and, unfortunately, we often fall into the trap of applying for the grants and being successful. So I think there are some issues in there. My view would be that a broader pool of money should be made available to local government to invest as it sees fit in its community rather than necessarily responding to an arts program or a heritage program et cetera. They would be my comments.

Mr Merritt—Probably one of the challenges, if there was potential for increased direct funding on an accreditation basis, would be the need for us to still look at the appropriate regional cooperation arrangements to ensure in broad terms that there was coordination and resource sharing. In fact, even the AusLink green paper that is out at the moment raises some concerns. It suggests that there should be some screening process to ensure that the local roads component of FAGs should be somewhat hypothecated towards the regional aspects of local road networks, which may be contributing to cost shifting if councils then have to raise their own funds for local roads that do not perhaps meet with that. But, back to the point: yes, if there was direct funding it would probably raise that challenge as to how local government can cooperate and operate more cohesively in regional arrangements, bearing in mind that it is often an Achilles heel if it is entirely voluntary. The regional arrangements are only as good as the weakest link.

CHAIR—A lot of people sitting behind the roundtable participants are mayors or councillors or people who have a direct interest or involvement—and they have not all gone to sleep. Does anyone have any comments that they would like to make to the committee? You have been listening very patiently. Would anyone like to come forward, so we can get your comments on the record? Who is going to be first?

Mr Bawden—I am from the rural Horsham Shire Council. I would like to take the opportunity to briefly speak to a couple of issues that our shire submitted and reiterate a lot of the comments that have been made about library funding, art galleries and maternal and child health. There are a couple of other issues that are of concern to the Horsham Shire Council, and I am sure they are of concern across the state. The first one relates to waste management. The comment refers to meeting the increased regulatory requirements imposed by the state, and I guess that gets back to a policy issue. But in Horsham's situation, its financial commitment to waste management has doubled since 1995-96 from \$70,000 per annum to \$1.4 million, obviously placing a large burden on the limited resources that are available. That is generally attributable to meeting the increasing standards being imposed at another level of government. The more recent introduction of the levy system by the Victorian government will further exacerbate that situation.

A further example is that of regional economic development, where I understand the state government has significantly withdrawn funding over recent years from regional economic development authorities. The wash-up of that is that local councils have seen the importance of these regional facilities and boards keeping their economies vital and vibrant. In the case of the Wimmera Development Association, which is housed in Horsham but comprises four shires in that area, those shires have chosen to maintain that successful organisation by maintaining and slightly increasing their financial commitments, but it has largely been due to also securing a very generous beneficiary which has been able to maintain those levels of services in regional Victoria. So they are just two different examples that I would like to bring to the committee's attention.

Mr NAIRN—There is an issue I was going to raise generally, but you raised it—waste management. Isn't this a good example of where councils can work together to try and bring down some of the costs? I was a bit surprised that Mr Jacobs said before that there really was nothing that could be done cooperatively because every area has its own unique problems, but surely with the direction that something like waste management is going there will have to be a lot more recycling, and to do that economically you really need critical mass. Is that one area where councils could work more closely together?

Mr Jacobs—Hindmarsh is already sending its rubbish to Horsham.

Mr Bawden—And we're receiving it!

Mr NAIRN—You have proved my point.

Mr Johnston—Across Victoria there are regional waste management groups set up. There are five councils in this region that work together. The difficulty is the extra cost, and a lot of that is imposed by new EPA requirements, so it is an imposed cost rather than an operational cost that is causing some problems.

Mr Jakob—On that waste management point, most of those councils are actually working together in policy and theory form. However, on the ground it is still up to each council to deliver the outcomes that it is looking for. And, yes, we are sending our rubbish elsewhere too. So while there are frameworks within which policy can be developed, practical delivery is still on ground with each council.

Mr KING—Mr Johnston, when you had the burden of these additional costs from the EPA for waste management, did you cost those at the time that the initial regulations were brought in?

Mr Johnston—We did. We run a landfill site, a waste facility, in our municipality, and we have income that comes from other municipalities in the form of waste across the region. But there are also regulations that get imposed, like extra increases in costs per tonne imposed by the EPA or EcoRecycle, which is through state government imposed levies. The argument they will put up is that part of that funding is then fed back into education and in grants, and so on. But the operational cost on the ground for us goes up without notice, so to speak, or with three months notice or so, on a reasonably regular basis and EPA regulations or requirements may change without notification.

Mr KING—Are you compensated by the state for those additional costs?

Mr Johnston—The brief answer is no. Their view will be, 'You had the opportunity to apply for a grant or through EcoRecycle to get back some of that funding.' But the short answer is, no. We pay and we may get some of it back in the form of a grant.

Mr Mostyn—Likewise, Mr Chairman. I was just looking at my briefing notes. In the past seven years, our waste management costs have moved from \$439,000 to just under \$1.3 million.

CHAIR—Does anyone else wish to make a comment?

Mr Keller—I am the Acting Chief Executive Officer of the Glenelg Shire Council. I just want to comment briefly on the deputy chair's comment on wants and needs. Really, it becomes a subtle form of cost shifting when we find expectations increased through trying to target funding opportunities. So many of the funding opportunities are targeted funding—for a very good purpose, we might say—and they create icons, things that are there as wants. The subtle form of cost shifting comes when the need is then created through the expectation in the community for us to maintain them and look after them in perpetuity—and we could all nominate a great number of those. It is a very subtle form. Being someone who says no on a daily basis, we suddenly cannot say no, because the thing is built and we have to look after it. It is not necessarily just built things. It can be other things where the need has been created and then we are left with it. So it is just a brief comment on wants and needs and the shift from a want to a need, and the expectation that that creates.

Mr KING—Would an example of that in rural Victoria be fire equipment and services?

Mr Keller—No, we do not have a lot to do with fire equipment and services, and I take it that they are really a very necessary thing. The sorts of things I have in mind are, particularly, icon funding. Some of the things that were mentioned before—such as art centres, and so on—are very necessary and very important, but maybe we can do without them. We do not even get the opportunity to say no to them. The funds are welcome, but then we have to look after them.

Mr Merritt—Perhaps I will say, although it was brought out before, that local government is increasingly being seen as the most appropriate collection agency for funding of services. It obviously happens already in the metropolitan area with the metropolitan fire service. Because of the review of fire insurance and the fire insurance levy, it is quite possible that local government outside of Melbourne might be asked to also contribute to fire services associated with the Country Fire Authority, although I would stress that is probably speculative, ahead of the findings of the current investigation. But with regional waste management, say, instead of the state electing to raise that revenue by some other means, they simply introduced legislation that meant that the full cost of running the regional waste management authorities is now to be through stepped higher rates or through higher levies imposed on local government. So it is just another case of an increasingly complex world, I suppose, in looking after the environment. Nonetheless, local government was basically the best collection agency to find that money.

CHAIR—I think it has been a very valuable afternoon. I would like to thank everyone for coming along and for your submissions. There is some very valuable material which we are going to work with, and it is certainly much appreciated. Again, thank you very much and thank you to Hansard. Some valuable information has come out of today, and it will certainly help the committee with its work.

Ms BURKE—I think we should also thank the secretariat for managing to organise for all of us to be here today.

Resolved (on motion by **Mr Somlyay**):

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

Committee adjourned at 3.56 p.m.
