FEDERAL COST SHIFTING INQUIRY SUBMISSION

Introduction

This submission is prepared in two parts, the first part dealing with general issues, and the second, dealing with specific cost shifting.

This submission is based on guidelines provided by the Municipal Association of Victoria (Part A) and further information provided by the City of Maroondah (Part B).

Part A

<u>General</u>

- There is a major financial crisis confronting local government in Victoria with the majority of Councils increasing rates and charges well above CPI.
- The financial pressures on local government are not simply the result of the actions of state governments. The poor financial situation of local government has also been contributed to by the lack of funds to develop and maintain infrastructure, the insurance crisis, difficulties procuring qualified staff in rural and regional areas, significant increases in costs of road making materials, community demands for increased services as well as cost shifting from the Commonwealth

Terms of Reference

The Minister for Regional Services, Territories and Local Government has asked the Committee to inquire into 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.

Response:

- Councils are expected to provide an increasing range of services to the population in addition to traditional property services. This creates a tension for funding within local government and has contributed to the decline in capital expenditure by local government
- Local government's roles and responsibilities are evolving to meet community requirements and desires. The sector must retain some degree of flexibility to ensure it can adequately deal with these requirements
- 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.

FEDERAL COST SHIFTING INQUIRY (continued – 2)

Response:

- Funding arrangements are incredibly complex. Victorian local government raises revenue from three main sources:
 - rates, fees, fines & charges
 - general purpose payments
 - specific purpose payments
 - Rates, as the primary source of local government income, are subject to a range of overt and covert limitations on their growth
 - Payments from Commonwealth and state governments through general purpose payments (GPPs) and specific purpose payments (SPPs) – are an important source of income. However, GPPs and SPPs are paid at the pleasure of other levels of government and as such are subject to discretionary pressures beyond local government's control
 - The use of CPI as the platform for increases in Commonwealth and State GPPs and SPPs is a major issue. This is due to the fact that local government's costs are increasing in line with increases in adjusted average weekly earnings. As a result, Government funding increases are below the costs increases faced by the sector
 - ➤ The Commonwealth's Financial Assistance Grants program (FAGs) provide an ideal vehicle for financing Victoria's revenue deficit. The issue is setting the quantum of funds at a realistic level
 - ➤ The argument should not be about alternative funding arrangements but actually using the existing arrangements more appropriately. As noted above, the issue is about the quantum of funds available
- 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.

Response:

- Regional cooperation is important in delivering outcomes for the community
- Opportunities exist to achieve some efficiencies through "aggregating" together a number of councils to deal with common issues. However, experience has shown that regional groupings are most effective when they coalesce around common interests, rather than through any top down approach to creating regional groupings of councils
- Greater Bendigo City Council is large enough to act on a regional basis on many issues. There are some regional co-operations required e.g. on agri-business initiatives we work with Councils to the north and Waste Management we work with Councils to the south
- A significant issue is the lack of finance for major community facilities which service the interests of the region

FEDERAL COST SHIFTING INQUIRY (continued – 3)

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.

Response:

- Of the identified funding deficit in the Victoria local government sector (approximately \$430 million in 2000-01), cost shifting as a result of statutory and non-statutory responsibilities accounts for 10-15%
- See also Part B of this submission
- The deficit manifests itself in underspending on capital items such as roads and buildings. A number of state government reports, including the recent Auditor-General's *Report on Management of Roads by Local Government*, have identified this gap
- Community and government expectation has been a contributing factor to the focus on daily operational expenditure, typically provided on behalf of the State Government, at the expense of capital renewal and replacement
- 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.

Response:

- Concern about competition and duplication between Commonwealth, state and local government programs and expenditure. Best example is aged care where there is potential competition between the Commonwealth's Community Aged Care Program (CACPs) program and the State's Linkages program. There is also the potential for duplication between these two programs and the HACC core services provided by local government
- Potential for far greater cooperation between the levels of government on issues. Issues under the banner of cooperation include:
 - increasing local government's participation in policy development and planning
 - recognising the natural advantages of using local government to deliver certain programs
 - acknowledging the limited financial capacity of local government to tackle major issues ie infrastructure and aged care
 - maintaining and increasing Commonwealth and State program flexibility to enable local government to deliver outcomes to the community

FEDERAL COST SHIFTING INQUIRY (continued – 4)

6. The findings of the Commonwealth Grants Commission (CGC) 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.

Response:

- Council supports the MAV's position on the findings of the Commonwealth Grants Commission Review
- ➤ The single biggest factor limiting the value and effectiveness of the FAGs process is the limited quantum of funds available. The size of the national pool is simply inadequate to deal realistically with the financial constraints facing local government. Untied assistance is vital if local government is going to tackle the massive capital expenditure gap
- The State based per capita distribution must be maintained through the current structure of the FAGS program

The inquiry is to be conducted on the basis that the outcomes will be budget neutral for the Commonwealth.

Response:

- ➢ If the inquiry is to deliver any meaningful and lasting changes to local government financing, then it must be able to address the terms of reference without any artificial barriers
- ➢ It is clearly the case that you cannot explore local government's increasing financial burden without the potential budgetary impacts on both Commonwealth and State
- If the Government is to act on any recommendations flowing from the inquiry, then by definition there is the potential for impacts on the Commonwealth Budget. It is difficult to comprehend how an Inquiry of the Commonwealth Parliament could force reform to state government programs and policies
- The MAV's analysis shows that by addressing cost shifting you will only eradicate 10-15% of the local government funding gap

Part B

Cost Shifting From Commonwealth and/or State Governments

This part deals with the response to the "House of Representatives Inquiry into Local Government Cost Shifting" - Term of Reference No 4:

Definitions

Compliance: Additional costs/resources required as a result of compliance to new/amended State/Federal legislation.

FEDERAL COST SHIFTING INQUIRY (continued – 5)

- *Under Fund:* Although funding may be provided for new/amended responsibilities it is insufficient or short term (e.g. one-off rather than recurrent).
- *Shift:* Clear transfer of State/Federal responsibilities to Local Government Authorities (LGAs) with no associated funding.
- Excess Levy: New or increased levies imposed on LGAs for no or insufficient return.
- *Flow On:* Indirect costs which LGAs are responsible for as a result of compliance, under funding, or shifting of responsibilities.

This Term of Reference has been expanded to include impacts of changes in powers, functions and responsibilities between the Commonwealth and local governments.

1: Building Services

Α	Building Surveyor Inspections	Compliance Shift
	Increased roles and responsibilities for Municipal Building	Flow on
	Surveyor as a result of legislative changes which require	
	increased inspections (e.g. Essential Services Inspections, Special	
	Care Building Audits, Swimming Pool and Barrier Inspections,	
	Smoke Detector Inspections).	
В	Consents and Reports – Building	Shift
		Under fund
	Proposed laws regarding "consents and reports" will provide	
	additional work for Building Surveyors, Planning Officers and	
	heritage review costs which fees will not cover. Building Control	
	Commission (BCC) previously charged \$200 for this service	
9	whilst LGAs will only be allowed to recover \$100.	
C	Increased Building Surveyor Audits	Compliance
	Increased audits of Building Surveyors (by Tax Office, Building	
	Commission etc) have a substantial impact on resources.	
D	Lodgement Fees	
		Indor fund
_	Lougement rees	Under fund
-		Under fund
	Legislated lodgement fee of \$15.00 for provision of information	Under fund
		Under fund
E	Legislated lodgement fee of \$15.00 for provision of information (to solicitors, surveyors etc) is insufficient (with more realistic	Under fund Compliance
	Legislated lodgement fee of \$15.00 for provision of information (to solicitors, surveyors etc) is insufficient (with more realistic cost estimates in the vicinity of \$150.)	
	Legislated lodgement fee of \$15.00 for provision of information (to solicitors, surveyors etc) is insufficient (with more realistic cost estimates in the vicinity of \$150.)	Compliance
	Legislated lodgement fee of \$15.00 for provision of information (to solicitors, surveyors etc) is insufficient (with more realistic cost estimates in the vicinity of \$150.) Section 29 Building Act Demolition and Report	Compliance

FEDERAL COST SHIFTING INQUIRY (continued – 6)

F	Sewerage/Water	Shift
	Relevant sewerage and water authorities are no longer checking	
	plumbing water/sewerage fixtures. Further, no assistance /	
	resources are provided when fixtures are causing nuisance. This	
	has become responsibility of LGAs.	
a		G1 • 6
G	Private Surveyors Complaints	Shift
	BCC is now referring all complaints about private surveyors to	
	LGAs, even though they are the responsibility of the Commission.	
Н	Private Surveyors Increase in Liability Premiums	Shift
	The BCC has advised LGAs that there will be a dramatic increase	
	in workload for Councils due to insurance costs spiralling for	
	private building surveyors. Private surveyors have advised the	
	BCC that as the increase in premiums is not sustainable some	
	surveyors will be choosing not to renew their registration.	
Ι	Crossing Permits	Compliance
1	Crossing Fernints	Compliance
	Many builders who obtain permits from private surveyors are not	
	being advised that separate vehicle crossing permits are required,	
	hence, many crossings installed without permits are not in	
	accordance with Council standards. Involves costs to Council to	
	follow-up etc.	
	Tonow-up etc.	

2: Public Health Services

А	EPA - Industrial and Traffic Noise	Shift
	A number of issues are being informally "delegated" by EPA to Environmental Health Officers (EHOs) to investigate and resolve. EPA is not providing support and resources to investigate complaints which are clearly part of their Act and policy area. Specific examples include traffic noise and industrial noise.	
В	Tobacco	Compliance
	Tobacco Unit (Department of Human Services) continues to introduce new legislation which requires LGA enforcement with no associated funding or resources.	
С	Immunisation	Compliance
	Immunisation requirements have increased significantly (e.g. required vaccinations etc) with minimal or no additional financial assistance or resources. Currently Council is funding 2/3 of the cost.	Under fund

<u>FEDERAL COST SHIFTING INQUIRY</u> (continued – 7)

D	Food Act	Compliance Under fund
		Under fund
	Food Act requirements have increased significantly. The only	
	source of income is from the annual registration fee which does	
	not cover the administrative costs of enforcing the Act.	
E	Health Act Amendments – Legionella	Compliance
	LGAs are now responsible for the registration, maintenance, and	
	annual auditing of cooling towers.	

3: Statutory Planning

Α	Rescode	Compliance
	Introduction of Rescode has had a dramatic effect on the time taken to assess planning applications (far more complex legislation and higher level of expertise required to administer.)	
В	Planning Fees (general)	Compliance Under fund
	Inadequate set planning fees which do not cover cost of administering the Planning and Environmental Services Act.	e nuer gana
С	EPA – Industrial and Traffic Noise	Shift
	A number of issues are being informally "delegated" by EPA to Planning Officers to investigate and resolve. EPA is not providing support and resources to investigate complaints which are clearly part of their Act and policy area. Specific examples include traffic noise and industrial noise.	

4: Local Laws

A	School Crossings	Under fund
	School crossings (numbers) and associated supervision and administration costs (e.g. workcover) continue to increase with no additional subsidies/funding. Previously this service was fully funded.	
В	Parking - State Facilities	Shift
		Under fund
	Enforcement of ever increasing parking problems around schools	
	and hospitals. State policy is to not provide funds for parking	
	around schools and hospitals, even if funding is being provided	
	for major infrastructure upgrade.	
С	Dog Act – Amended Legislation	Compliance
	New legislation requiring Council to investigate and enforce	
	provisions relating to restrictive dogs (no off set fee or subsidies).	

FEDERAL COST SHIFTING INQUIRY (continued – 8)

D	Registration of Animals	Excess levy
	Council to collect and pay to State increased levy for registration which has no discernable benefits for resident or LGA (\$2.50 per registered animal)	

5: Information Technology

A	Increased projects/responsibility to service areas (including staff) will usually have an IT component, which is rarely fully funded externally (e.g. new equipment, software applications, licenses).	
В	Software enhancements (required by Federal or State Government legislative changes) generally have no funding.	Compliance
С	State and Federal Government "E based" Projects (e.g. Local Government On Line Services and Networking the Nation) are generally provided with initial funding, however for the objectives of the Federal/State Government to be maintained ongoing resourcing, hardware, software and communications maintenance become recurrent funding issues for LGAs. Rural/regional Councils receive some funding whilst metropolitan Councils do not.	•

6: Community Services

A	Home and Community Care	Under fund Shift
	The HACC program is significantly under funded which results in	-
	LGAs having to provide sufficient "top up funding" as well as	
	limiting service. State Government policies (such as de-	
	institutionalisation) have increased the "user base" significantly,	
	with no additional funding or resources.	
В	Maternal and Child Health	Under fund
		Shift
	The unit cost per hour is grossly under funded. Additionally,	
	State Government health policies, such as early release of post	
	natal mothers have resulted in additional workloads for M & CH	
	nurses (funded by LGAs).	
С	Libraries	Under fund
		Shift
	Libraries are under funded in respect of both operational grants	-
	and capital/infrastructure upgrades. The "gap" is where feasible addressed by LGAs. Previously 50:50 funding share, now 75:25.	

<u>FEDERAL COST SHIFTING INQUIRY</u> (continued – 9)

D	Long Day Care	Shift
		Flow on
	The loss of operational subsidy that occurred a couple of years	2 00 // 010
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	ago has had an adverse impact on community child care (reducing	
	service choice). The costs shifted to Council and parents.	
E	Family Day Care	Compliance
		Under fund
	The amended government regulations governing the operation	U
	and accreditation of Family Day Care have increased workloads	
	for both Council Officers (administration) and Care providers.	
	No increases in funding have been forthcoming to offset increased	
	costs.	
F	Child Care Building Regulation Changes	Compliance
		Under fund
	Significant changes to building regulations which are only	j.
	partially funded but are compulsory.	
0		
G	Crime and Safety Programs/Graffiti Programs	Under fund
		Shift
	One off grants/funding are provided to establish programs and	
	employ Officers, and then the expectation is that these	
	programs/Officers will be ongoing and all costs will be "covered"	
	by LGAs.	
TT		Compliance
Н	Primary Care Partnerships (PCP)	Compliance
		Under fund
	This is a State Government Human Services reform which	
	requires Local Government participation and coordination.	
	Whilst individual projects are funded, agencies (i.e. LGAs) are	
	not funded for their participation (high usage of	
	resources/personnel).	

7: Integrated Planning

A	Economic Development Prior to 1994, Economic Development for a local area was not a mainstream Local Government activity. Now a requirement as part of the Local Government Act.	Shift Compliance
В	Asset Renewal	Under fund
	State Government placing greater emphasis on Council's asset renewal program without increasing funding to maintain assets thereby forcing LGAs to divert funds from other non-asset programs.	

FEDERAL COST SHIFTING INQUIRY (continued – 10)

C	Asset Management Plans	Compliance
	The requirement for the development of Asset Management Plans.	
D	Road Safety - Strategic Encouragement (and expectation) that LGAs will now have increased roles and responsibilities in respect of road safety and driver education (behavioural change).	Shift Under fund
E	Disability Discrimination Act Costs associated with compliance with Disability Discrimination Act.	Compliance

8: Leisure Culture and Youth

Α	School Focussed Youth Services	Under fund
	A program funded by State Government to improve links between local school and community agencies to ensure improved service delivery to young people. Future funding has not been confirmed in which case the service will disappear unless funded by LGAs.	
В	Youth Services Grant	Under fund
	The current State Government has indicated that this long term grant will not be available for the same purpose next year (contribution to Youth Support Worker salary) which will mean the service is reduced or LGAs will need to compensate.	
C	FreeZA	Under fund
	Funded since program's inception in 97/98 at \$20,000 per year. Current year funding has been reduced to \$17,500.	

9: Community Planning

I	А	Gambling	Compliance Under fund
		New state gaming legislation (and policy) states that LGAs should always (as only entity entitled to) prepare and submit a detailed Social and Economic Impact Statement in response to any new EGM gaming application in a specific municipality.	

FEDERAL COST SHIFTING INQUIRY (continued – 11)

В	Housing	Under fund Shift
	New state housing initiatives (e.g. Social Housing Innovation Project) focus on partnership arrangements for the provision of community housing in a local area (between State, LGA and Community Housing organisations). Costs for Council can include land provision, rezoning and lease/legal documentation.	Singi
С	Disability Discrimination Act	Compliance
	Ongoing implications for upgrade in infrastructure to meet requirements	

10: Engineering and Infrastructure/Roads

А	Powerline Safety	Compliance
	Requirement for 'spotters' for works close to or near overhead powerlines. This has resulted in increased costs for road maintenance and construction works (a requirement of the Office of the Chief Electrical Inspector).	
В	Maintenance for On and Off Road	Shift
		Under fund
	Maintenance funding for both "on road" and off road" has	
	remained the same for past 6 years. Additionally, changes to who will fund which portion of the assets within the road reserve have	
	meant LGAs are shouldering additional financial burden.	
С	Management of Roadsides	Shift
	VicRoads has neglected landscaping of medians along main roads	Under fund
	in the urban area. Council has picked up this role due to	
	community expectations.	
D	Black Spot Funding	Under fund
	The LGA is expected to fund other Black Spot projects which are	
	not met by State Government funding and yet have a high Benefit	
	Cost Ratio (BCR).	
Е	Heavy Vehicle Road Limit Variations	Under fund
	Changes to load limits to allow heavy vehicles such as B-Doubles and B-Triples on local roads have had an impact upon the local	
	road network. No funding allocation or additional funding has	
	been provided to compensate for the required accelerated	
	expenditure that will be realised down the track.	

FEDERAL COST SHIFTING INQUIRY (continued – 12)

F	Ancillary Infrastructure - Hospitals/Schools	Shift
	State Government developments such as hospitals and schools which occur without the appropriate ancillary infrastructure improvements (as required by other developers) to address particularly parking and traffic demands. Council consequently is required to fund traffic management works, parking controls and enforcement to deal with the consequences of these developments and address safety and amenity issues for the community.	Under fund
G	50km/h Speed Limits	Compliance
	The introduction of the 50km/h speed limits within local streets has resulted in a community demands that roads of this type that have 85th percentile speeds in excess of the new limit require implementation of local traffic management devices to assist in containing vehicle speeds.	Under fund
	Other than one off funding for the provision of new signage and signage changes at the commencement of the new speed limit no additional or compensatory funding has been provided and Council is required to absorb the associated costs with implementing these devices. This also includes numerous sites which have previously been treated to achieve the previous 60 km/h limits and now have a perceived speeding problem.	
Н	Tree Clearance Near Powerlines	Shift
	This was previously the responsibility of the SEC.	
Ι	Tree Clearance and Road Safety	Compliance
	The need to obtain planning permits for the removal of native vegetation (potentially dangerous and hazardous trees) has led to increased costs for road projects – time consuming and costly consultation process including VCAT appeals. Recent example: Sutton Grange Road between Huddle Road and Carramar Road; project delayed 12 months; planning process costs - \$10's of 1,000's.	
J	Signs and Hoardings	Compliance
	Administering signs/hoardings requests/complaints within urban towns cities highways. Probably good thin, but administrative cost to Local Government.	

FEDERAL COST SHIFTING INQUIRY (continued – 13)

K Street Lighting

Prior to the privatisation of the power industry, Council, Vic
Roads and SEC used to pay a third of the operating costs for street
lighting on State Declared Roads, Highways and Main Roads,
where lighting complied with Vic Roads standard. Since the
privatisation of the power industry, these operating costs are now
shared equally between Vic Roads and Council.

Shift

11: Finance and Civic

Δ	GST	Compliance
A	681	Compliance
	The GST legislation for Councils is complex, as Council provides	
	GST free supplies, supplies attracting GST and Division 81	
	supplies which makes certain supplies, at the discretion of the	
	Minister, outside the legislation. The Government could have	
	allowed Councils to be GST exempt which would have	
	administratively much simpler.	
	LGAs have been responsible for initial set up costs (eg software,	
	audits etc) and ongoing operational costs.	
В	Superannuation Unfunded Liability	Compliance
D	Superannuation Chronice Liability	Compliance
	As a result of State directed amalgamations, many employees	
	were made redundant causing a huge drain on the LAS Defined	
	Benefits Fund resulting in LGAs having to make a substantial	
	contribution towards the unfunded liability.	
С	National Competition Policy and Competitive Neutrality	Compliance
	From 1994 Councils are required to comply with NCP and CN.	
	This meant Councils are now subject to Part 1V of the Trade	
	Practices Act and must comply with competitive neutrality for	
	any significant business activity Council provides. This has	
	significant resource implications for administration and reporting	
D	(as funding ceases in 2002/2003). Victoria Grants Commission	Under fund
ש		Under fund
	Reduction in monies received from the grants commission. This	
	may be more a carving of the pie rather than an overall reduction	
	in monies allocated by the Grants Commission.	
E	Whistleblowers Legislation	Compliance
E		Compliance
E	Costs involved in setting up procedures and purchasing of	Compliance
E		Compliance

FEDERAL COST SHIFTING INQUIRY (continued – 14)

F	Privacy Legislation	Compliance
	Costs associated with implementing the provisions – audit, policy	
	and compliance statements. Ongoing costs associated with	
	compliance yet to be determined.	

12: Major Leisure Facilities

Α	Child Care Facilities	Compliance
	Regulations regarding child care services at Leisure Facilities have significantly increased operating and capital costs.	
В	Crown Land	Under fund
	Due to community expectation, council manages some Crown Land that is the responsibility of the Department of Natural Resources and Environment.	

13: Resources/Valuations

A	Valuations	Compliance Under fund
	LGAs are now required to do a valuation every two years instead	
	of every four years (with little direct or indirect benefit for	
	LGAs). The amount of information required to be collected	
	during the valuation has substantially increased.	
В	MFB Contributions	Shift
		Under fund
	The MFB is now under funded and LGAs are having to contribute	
	funds to ensure service provision is maintained.	

14: Waste Services (Landfill Sites)

А	Landfill Levy	Excess levy
	Resources Efficiency Bill 2002 has increased landfill levies.	
В	Financial Assurance	Compliance
	LGA's are now required to provide a financial assurance proposal for licensed landfills	
С	Best Practice Guidelines	Compliance
	License amendments as a result of introduction of Best Practice Guidelines have significantly increased operating costs.	

FEDERAL COST SHIFTING INQUIRY (continued – 15)

D	Kerbside Collections	Under fund
	Ecorecycle's Best Practice Kerbside Recycling Program up to \$8 per tenement to fund implementation. Ultimately will result in significantly increased costs to Councils; 2-60litre crates or 240 litre split bins.	