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Australia's ageing population

Economic implications for local government

ALGA Submission
to the
Productivity Commission Research Study
into
Economic implications of an ageing Australia

September 2004

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Introduction

The Australian Local Government Association represents the interests of local government nationally. ALGA is constituted as a federation of the peak Local Government Associations in the six States and the Northern Territory, together with the Government of the ACT. ALGA provides a range of services to its member associations and, through them, local councils throughout Australia.

ALGA welcomes the opportunity to provide this submission in response to the Productivity Commission's research study examining the productivity, labour supply and fiscal implications of likely demographic trends over the next 40 years for all levels of government.

ALGA commends the establishment of the research study and recognises the need to further improve understanding of the challenges and opportunities resulting from an ageing Australia.

This submission focuses on particular issues and statements addressed in the Commission's accompanying questions paper, and the terms of reference in so far as they apply to local government.

Our comments are principally directed towards the section of the questions paper headed "Fiscal implications for government services". The comments address the terms of reference of the research study through the questions raised in that part of the paper.

In addition we have some additional but brief comment on other related issues which are raised in the paper and the terms of reference.

ALGA trusts that the Commission will consider our comments and recommendations as part of the report.

Ageing communities

Australia's population is ageing and the evidence for this demographic change is undeniable. Past falls in fertility, increasing life expectancy and the effect of the 'baby boomer' generation moving through older age groups, has contributed to an increase in the number and proportion of people aged over 65 years. This trend will grow over the coming decades, to such an extent, that the:

- number of people aged over 65 years will increase from the current 2.5 million to around 7.2 million by 2051;
- proportion of people aged over 65 years will grow from the current 13%, to one quarter of the population by 2051;
- proportion of people over 85 years will grow from the current 1.4% to approximately 6% by 2051; and
- proportion of the population aged between 15-64 years (labour force age) will fall from the current 67%, to around 59% by 2051.

Regional movements

Despite the ageing of Australia's population as a whole, there are wide variations in the rate of population ageing across and within Australia's states and territories.

At the state and territory level, Tasmania's population is projected to age most rapidly, surpassing South Australia by 2021 to become the oldest state in Australia. By 2051, both Tasmania and South Australia will have over 30% of their population aged 65 years and over, compared with 27% for Australia.

In contrast, the Northern Territory, which currently has the youngest population, is expected to retain the lowest proportion of the population over 65 years. Continued strong growth in the younger age cohorts allows the Northern Territory to maintain a relatively young population.

In the high growth states of Queensland and Western Australia, the effects of population ageing will be moderated by continued growth in the number of younger people.

Table 1 - Population of older persons by State and Territory

		2002	2021	2051
Proportion of resident population over 65 years				
New South Wales	%	13.2	19.0	26.9
Victoria	%	13.1	19.1	27.3
Queensland	%	11.8	18.5	26.8
South Australia	%	14.8	22.2	31.1
Western Australia	%	11.2	18.4	26.9
Tasmania	%	14.0	23.4	33.8
Northern Territory	%	3.9	8.1	12.1
Australian Capital Territory	%	8.8	16.4	23.5

Source: Population Projections, Australia, 2002-2101 (ABS Cat No.3222.0).

The disparities in demographic change will be particularly marked at the regional level. Population projections show that by 2021, the region with the oldest population in Australia will be the Mid-north coast of New South Wales, with 47% of its residents aged 55 years and over. This is an increase of 17% from current levels.

Wide Bay-Burnett region in Queensland, is projected to continue to be the second-oldest region in Australia, with 46% of its population aged 55 years and over in 2021. Gippsland in Victoria, currently with 26%, is projected to have 44% of its population aged 55 and above, making it the third oldest region by 2021.

Altogether 29 of the 64 regions are projected to have 35% or more of their population aged 55 years and over in 2021.

Table 2 - Australian Regions with largest proportion of population aged 55 and over

	2001		2011		2021	
	Region	Proportion of pop 55+	Region	Proportion of pop 55+	Region	Proportion of pop 55+
1	Mid North Coast New South Wales	30%	Mid North Coast New South Wales	38%	Mid North Coast New South Wales	47%
2	Wide Bay-Burnett Queensland	28%	Wide Bay-Burnett Queensland	36%	Wide Bay-Burnett Queensland	46%
3	Adelaide Central South Australia	28%	Gippsland Victoria	35%	Gippsland Victoria	44%
4	Sunshine Coast Queensland	27%	Richmond-Tweed New South Wales	34%	Richmond-Tweed New South Wales	42%
5	Richmond-Tweed New South Wales	27%	South East New South Wales	33%	South East New South Wales	40%

Source: ALGA/National Economics State of the Regions Report 2003/04

* Equal fifth with the following regions, also on 40%: Ovens-Hume (Vic), Sunshine Coast (Qld), Eyre and Yorke (SA)

Responding to demographic change

The change in demographics will require a proactive and innovative approach to population ageing that is responsive to the needs and aspirations of all Australians.

The Australian Government has developed the *National Strategy for an Ageing Australia* which provides a framework for responding to the opportunities and challenges of population ageing. The *National Strategy* concluded that the implications of population ageing affect more than just aged care services and that an effective response to population ageing requires a whole-of-government approach, including leadership by local government.

Unique position of local government

Local government is uniquely positioned to have a positive impact on the growing older population. Local government:

- has an intimate knowledge of the local community and the diversity of older people;
- ensures the physical, social and economic environment of the local community is conducive to the overall wellbeing of older people;
- provides services and programs that are flexible and locally appropriate to the needs of older people;
- enables community participation in local decision-making and supports the development of community networks; and
- is a strong advocate on behalf of the local community with other government and non-government organisations.

These community-focused roles clearly entrench local government's relationship with older people in the community. This reinforces local government's ability to recognise, understand and respond to the needs of the growing older population.

Local level responses

Throughout Australia, local government has begun to respond to population ageing in a variety of ways.

The Local Government and Shires Associations of NSW are planning to undertake a research study into the impact of the ageing population on local infrastructure in an effort to help formulate strategies for councils to address

the problem. The aim of the study is to highlight the main areas where local government will be affected by the ageing trend and how councils can strategically plan for the changing demand on infrastructure and services.

The Municipal Association of Victoria is to develop a *Community Care for the Ageing* Strategy. The aim of the strategy is to create awareness about the importance of community care and the need for increased care provision for a growing number of people and to call for a simpler community care system. The Association is also developing a proposal to progress positive ageing strategies in partnership with the Victorian Government and Council on the Ageing (Victoria).

The Local Government Association of Queensland (LGAQ) is working with the Queensland Department of Communities on the *Queensland 2020: A State for All Ages* project. In particular, LGAQ held a forum that provided an opportunity for local government representatives to participate in the project.

The Local Government Association of South Australia has been invited to join a new officer-level bi-lateral Commonwealth-State Committee to look at attracting more migrants to South Australia.

The Western Australian Local Government Association is working with the Office for Seniors Interest and Volunteering to facilitate research and funding for local government to allow them to plan for the implications of population ageing. The Association is also involved with Future Directions International on a collaborative intergenerational project to identify future needs and expectations to the year 2029, for a broad range of social services.

The Local Government Association of Tasmania has agreed to develop a Partnership Agreement for Positive Ageing with the Australian Government and Tasmanian Government. Some of the outcomes being sought from the Partnership Agreement include better planning and delivery of services for older people; improved access to and sharing of information for planning purposes; increased community awareness of ageing issues; an improved planning process that supports the development of aged care homes; and improved capacity of service providers to identify areas for development. Following consultation it is anticipated that the Partnership Agreement will be signed by the three parties in 2004-05. Once signed, the Agreement will be the first of its kind in Australia.

Some local councils have also developed local strategies to support an ageing community.

Nillumbik Shire Council in Victoria - for example - last year won the inaugural Planning for an Ageing Community award - for its Homewise Kit. The Kit, part of Nillumbik's older persons health promotion program: ageing in your home project, provides a range of helpful hints and considerations for builders and residents to make their home design more age-friendly and enhance the ability of older people to live independently, in their place of choice, for longer.

In NSW, Sutherland Shire Council has developed the Sizzling Seniors program. This program offers a range of health and fitness services to the older adult market now attracting more than 10,000 visits a year, averaging 16 participants a class. Recognising the ongoing demographic growth in the older age market, Sutherland Shire Leisure Centres is committed to the ongoing expansion of this program.

An Australian local government approach

At the national level, ALGA has developed the *Australian Local Government Population Ageing Plan 2004-2008*. This plan is the first step in a four-year partnership between ALGA and the Australian Government to engage local government in a planned and coordinated national approach to population ageing issues.

The plan aims to build the capacity of local government to plan for an ageing population. The plan is designed to provide a flexible and dynamic framework that:

- builds awareness of population ageing within local government;
- encourages local government action to plan for an ageing population;
- fosters partnerships to support a more collaborative approach to population ageing; and
- improves access to regional information on population ageing and future demographic shifts.

The plan complements other related national ageing strategies, such as the Australian Government *National Strategy for an Ageing Strategy* and intersects with the considerable work already undertaken in individual jurisdictions.

Economic implications for local government

Population ageing will present challenges for all Australian governments. The release of the *Intergenerational Report* started the discussion, identifying the fiscal effects of an ageing population from an Australian Government perspective. ALGA welcomes the opportunity to expand the discussion by setting out the economic implications of Australia's ageing population for local government.

Cost shifting

Over recent decades, the range and scope of local government functions have expanded, moving beyond traditional local government services, such as roads and rubbish, to incorporate an expansive range of human services.

In its 2001 review of the *Local Government (Financial Assistance) Act 1995*, the Commonwealth Grants Commission concluded that:

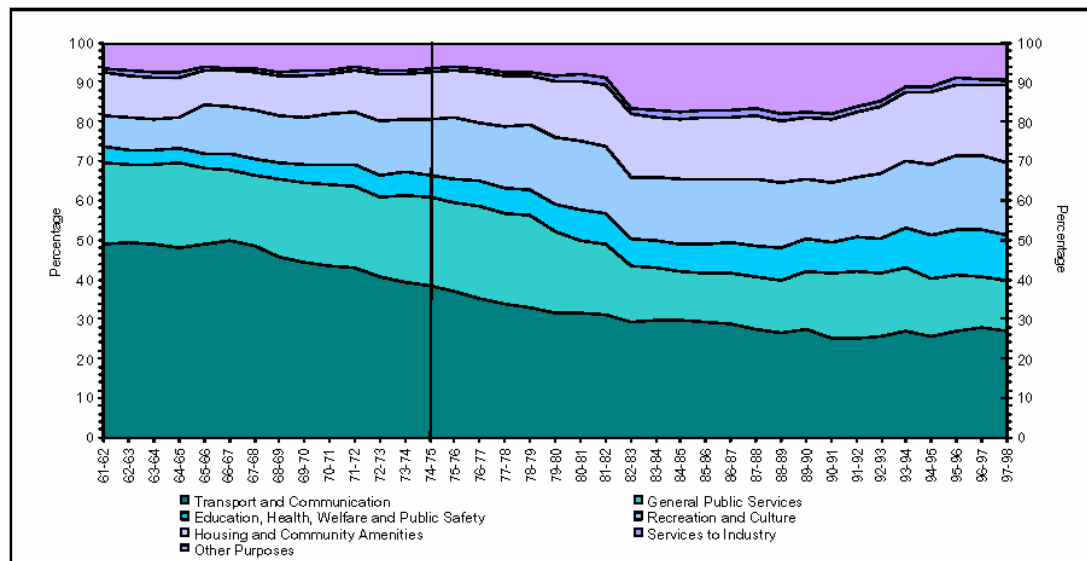
"... the composition of services provided by local government has changed markedly over the last 30-35 years and local government is increasingly providing human services (social welfare type services) at the expense of traditional property based services (particularly roads)."

This trend is illustrated in figure one that demonstrates the significant change in composition of local government expenditure from 1961-62 to 1997-98.

The figure shows that the relative importance of transport expenditure has significantly decreased, from 48.9% of total expenditure in the 1960s to 27.1% in the 1990s. The other expenditure category that has experienced a decline is General Public Services, falling 8% over the 35 years, now equating to only 12.7% of total expenditure.

There has been a significant increase in expenditure on Recreation and Culture and Housing and Community Amenities as a proportion of total local government outlays, each approaching 20% of total expenditure. The other expenditure category that has expanded over this period is Education Health, Welfare and Public Safety, rising from 3.8% in 1961-62 to 11.6% in 1997-98.

Figure 1: Composition of local government expenditure, 1961-62 to 1997-98



Source: Commonwealth Grants Commission - Review of the Operation of the Local government (Financial Assistance) Act 1995, June 2001 page 54

The Commission acknowledged that these changes were, to a certain extent the result of cost shifting on to local councils by other spheres of government.

The Fair Share Report on cost shifting and local government finances, tabled in Federal Parliament in November 2003 by the House of Representatives Standing Committee on Economics, Finance and Public Administration, reiterated the Grants Commissions claims and found that cost shifting was placing severe pressure on councils amounting to between \$500 million and \$1.1 billion each year. The committee also acknowledged that:

“... health and welfare is a major area of cost shifting onto local government.”

Whitehorse City Council stated in its submission to the Inquiry:

“...the Home and Community Care program is the single largest program in human services in the City of Whitehorse, consuming over 10 percent of the council’s recurrent expenditure. In the last four years, council’s overall contribution to the provision of HACC services has increased from 22 percent to 30 percent – that is, from \$1.1 million in 1997-98 to \$2.5 million in 2000-01. The greatest increases have occurred in home care, where council’s contribution has nearly quadrupled in four years – from \$310,000 in 1997-98 to \$1.1 million in 2000-01. “

The report found that cost shifting was a symptom of unsatisfactory governance arrangements between the three spheres of government. Without addressing these governance arrangements, the policy problems associated with an ageing population will never be resolved adequately and communities will suffer.

Finances

While there is limited modelling of the impact demographic change will have on local government, it is anticipated that local government will face significant cost pressures over the coming decades. Regional and rural areas will be the most adversely effected.

One of the greatest challenges facing local government in its need to deliver additional human services to an ageing population is its restricted revenue-raising capacity.

Municipal rates are the sole source of taxation revenue for local government and accounts for around \$7.2 billion, or 38%, of total revenue. Unlike consumption or income tax, municipal rates (which are calculated using land values) are a slow growth tax. Constraints by other spheres of government, such as rate pegging in New South Wales exacerbate the situation.

The state and territory governments' increasing reliance on income from property taxes is also reducing the ability of local councils to increase rates. According to the latest ABS statistics on taxation revenue, the tax burden placed on property owners by state governments has increased from 30% to 39% over the past five years. As the state governments proportion of the total tax bill (which is dependent of individuals capacity to pay) increases it reduces the proportion that local government can access. If local governments are to increase municipal rates then they need to increase the total tax burden. This may not be possible for both political and capacity to pay reasons.

A likely impact on municipal rates is the growing asset rich, income poor ratepayer base. In this case ratepayers may have considerable property, often the family home, but have a low level of disposable income. In some local government areas, as the population ages, the capacity to pay rates may become more stressed with growing asset rich, income poor retirees. Whilst the implementation of a deferred rate payments system could assist older people, it would adversely affect local government revenues.

Another possible impact on municipal rates is the expected increase in the proportion of the population likely to have entitlements to pensioner rate concessions as the population ages over the coming decades. The cost of pensioner rate concessions is already a growing burden. In 2002/03, 147 (out of 622) local government authorities contributed \$117.7m on pensioner rate concession subsidies. The obvious result of an increase in older people entitled to a rate concession, coupled with a decrease in the group who pay full municipal rates, is an erosion of local government own-source revenue.

The restricted taxation base has led to an increased reliance by local government on fees and user charges, the second major revenue source for local government. In the 1970s, fees and user charges comprised 13% of total revenue. This has now increased to 32% of total local government revenue. Local government's reliance on user charges is becoming

increasingly unsustainable in an increasing asset rich, income poor environment.

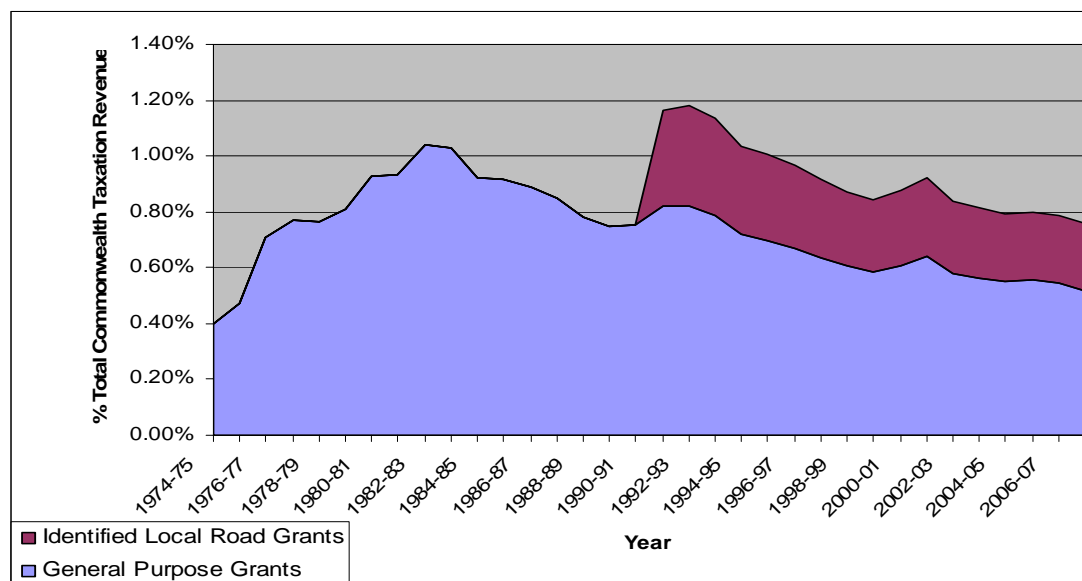
The third major source of revenue is grants and subsidies from the Australian and state and territory governments. It accounts for \$2.2 billion or 12% of total local government revenue. However, for some rural and remote councils where own-source revenue raising capacity is limited, grants can account for more than 50 per cent of council revenue.

The major source for grants to local government comes from the Australian Government in the form of Financial Assistance Grants (FAGs). The Australian Government pays FAGs to state government for distribution to local government via state grants commissions. In 2002-03, local governments received close to \$1.5 billion in FAGs.

The purpose of FAGs is to help counter the impact of vertical fiscal imbalance (the mismatch of spending and taxing powers), enable local government to provide a wider range of services and promote greater funding certainty and financial equity between councils.

The importance of FAGs to local government cannot be underestimated, yet the quantum of funds is insufficient to meet the increasing demand for services. Figure 2 shows how FAGs have continued to decline as a percentage of Commonwealth taxation revenue, even with the advent of the identified local road component of FAGs in the early 1990s. The 2004-05 Federal budget papers indicate that this trend is set to continue and by 2007-08, FAGs as a proportion of total Commonwealth taxation revenue will be just 0.86%.

Figure 2 – Local Government Financial Assistance Grants as a Percentage of Commonwealth Taxation Revenue



Source: Australian Local Government Association

With the onset of an ageing population, now is the time to improve significantly the financial relationship between the three spheres of

government, particularly the relationship between the Australian Government and local government. Local government has been arguing for a long time that there needs to be a fundamental shift away from a grants type arrangement to a share of Commonwealth taxation. The benefit to local government is that the amount it receives grows in real terms and in line with the fortunes of the economy. Such a system provides local government with certainty and ensures that the funding received by local government more than keeps up with inflation.

Service provision

The needs of the population will change as the proportion of older people increases over the coming decades. Utilisation patterns and preferences will evolve accordingly and there will be increased expectation that local government will accommodate those changing needs.

The ageing of the Australian population is likely to impact on a number of areas of local government service delivery. The main ones are expected to be:

- **Aged care services** - While the majority of older people are, and perceive themselves as being, in good health, they want to be able to access affordable and quality aged care services, that are located close to family, should the need arise. Some local government authorities will experience an increase in the demand for aged care services, which may include meals programs, in home support, respite and allied health services and social support activities. Pressures may not only be demand related, but there may be an emerging trend in the shortage of healthcare professionals in some local government areas.
- **Infrastructure** - The development of age-friendly infrastructure will be essential if older people are allowed to remain active and independent. However, local government will face increasing pressures relating to the suitability of infrastructure, much of which was built without particular consideration for ageing populations. Particularly, the planning, design and building of environments for older people, in both the public and private domain, will need to be considered at all stages of the planning process.
- **Housing** - The availability of affordable, accessible and suitable housing options is particularly important for older people, and will be a priority as the Australian population ages. The changing age profile, along with lifestyle and work pattern changes, will impact on future housing arrangements. It will therefore be important to provide flexible models of accommodation, encompassing a wide range of settings, while at the same time fostering supportive environments and independence.
- **Transport** - Transport enables older people to access services, family and friends and also community activities. Ageing populations will

increase the demand for community-based transport. As a result, transport options will need to meet the diverse needs of older people, especially in rural and remote areas of Australia.

- **Health promotion programs** - Health promotion is vital for encouraging healthy ageing, as it not only improves the health of the community, but also has the potential to reduce the health and care costs of older people. Health promotion activities aimed at older people encourage them to exercise regularly, eat well, develop and maintain social networks and access activities in their local community. The increased promotion of health education, campaigns and programs which are targeted and appropriate for older people, will be important as Australia's population continues to age. The quandary for local government, as demand for these programs increases, will be how these programs are funded in the future.
- **Community facilities** – Local government will face declining demand for certain types of community facilities, such as recreation and sporting facilities that are not necessarily suitable for the ageing population. The dilemma for local government will be in relation to the allocation of funds across the various categories of service and how to keep a region attractive for all age cohorts and thereby avoiding a cycle of decline.

Regional productivity

The 2003-2004 State of the Regions report prepared for ALGA by National Economics examined the relationship between demographic change and regional productivity.

The report explains that although population growth is a strong driver of regional productivity, it will be the type of population growth that will be of importance to local government as the ageing of the population continues over the next few decades. Table three summarises the possibilities and allocates each region to one of nine groups.

The report concluded that if population growth is concentrated in the working age group it will act as a powerful positive driver of regional economic performance. On the other hand, if population growth is concentrated in the 55 and over age group, regional productivity will decline.

This trend has implications for local government as a driver of regional economic development. That is unless local government can attract people aged 25-54, they are likely to be building a smaller economy.

Moreover, the State of the Regions report found that population ageing could exacerbate the growing inequalities across Australia's regions. Specifically, regions that are currently experiencing lagging economic performance, will age more rapidly and experience lower population growth compared to those regions which currently enjoy superior economic performance.

This trend highlights the enormous challenges that confront local government in lifestyle and coastal regions, especially in northern NSW.

Table 3 - Effects of internal migration on population ageing 1996-2001

Becoming younger

Gaining young and working age, losing seniors

Brisbane City, Sydney Outer North, Darwin, Melbourne West.

Gaining young, losing working age and seniors

Melbourne Inner, Adelaide Central, Perth Central, Global Sydney, ACT, Melbourne North, Melbourne South, Melbourne East, Sydney Inner West, Adelaide Plains, QLD North

Losing young and working age, losing seniors more

WA Pilbarra-Kimberley, NT Lingiari, Sydney Mid West, QLD North West, Sydney South

Balanced

Balanced gains

Perth Outer North, Perth Outer South, QLD Gold Coast

Balanced losses

Sydney Outer West

Becoming older

Gaining young and working age and seniors more

NSW Central Coast, Brisbane North, QLD Sunshine Coast, WA Peel-South West, NSW Illawarra, NSW Hunter

Losing young, gaining workforce age and seniors

Adelaide Outer, VIC Loddon, Melbourne Westernport, VIC Central Highlands, VIC Barwon, VIC Goulburn, VIC Ovens-Hume, NSW South-East, NSW Mid North Coast, NSW Richmond-Tweed, Sydney Outer South West, QLD Wide Bay-Burnett

Losing young and workforce age, gaining seniors

TAS North, TAS Hobart-South, VIC Gippsland

Losing young and middle aged, losing seniors less

WA Gascoyne-Goldfields, WA Wheatbelt-Great Southern, SA Eyre and Yorke, SA Murraylands, SA South East, VIC Mallee-Wimmera, VIC West, TAS North West, NSW Murray, NSW Murrumbidgee, NSW Central West, NSW Far and North West, NSW North, QLD Pastoral, QLD Far North, QLD Mackay, QLD Fitzroy, QLD West Moreton

Source: ALGA/National Economics State of the Regions Report 2003/04

The way forward

The launch of the *Australian Local Government Population Ageing Action Plan* marks a turning point for local government in planning for an ageing Australia. As ALGA embarks on the implementation phase, it will be critical to build the capacity of local government to respond to the economic challenges of population ageing. The way forward for local government should include:

A fair share for local government

Local government requires access to growth funds to meet the economic challenges of an ageing population. ALGA recommends the replacement of the grossly inadequate system of financial assistance grants, with a new system that provides local government with genuine growth funding based on a fair share of national taxation revenue.

Providing local government with a fair share of national taxation revenue will enable local government to:

- improve its capacity to provide common levels of service to ageing communities across Australia;
- improve the delivery of service to ageing communities;
- maintain and improve the quality of social and physical infrastructure across Australia; and
- help counter growing regional inequality.

Better governance arrangements

A whole of government approach to human services and governance is required to effectively meet the needs of the growing older population. ALGA recommends the establishment of a formalised intergovernmental agreement (IGA) on government service provision. The IGA would clearly define the roles and responsibilities of each sphere of government in specific areas of service provision and focus on the performance of each sphere through agreed benchmarks.

The IGA would provide substantial benefits, including better use of resources, reduction of waste and duplication and an improvement in the quality of services provided to local communities.

Development of a National Settlement Strategy

A national settlement strategy should be developed that builds a strategic framework for ageing communities. ALGA recommends that the policy should

specifically assist those regions which will experience acceleration in the ageing process to cope with the implications.

The development of a national settlement strategy should be undertaken by the Council of Australian Governments with the three spheres of government working in partnership.

Investment in Integrated Local Area Planning (ILAP)

Effective local area planning and management is essential to meeting the needs of ageing communities. To achieve this, ALGA recommends greater investment in Integrated Local Area Planning (ILAP). ILAP necessitates a whole of government approach to planning with an enhanced role for local government in bringing about more effective local area planning and provision of services to local communities.

By working in partnership with other spheres of government and the community, ILAP can reduce duplication, achieve better use of available resources and better integrate service delivery by all spheres of government.

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