



Municipal Association of Victoria

November 2004

Submission to the Productivity  
Commission Study into the Economic  
Implications of an Ageing Population



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## 1 EXECUTIVE SUMMARY

The Municipal Association of Victoria (MAV) welcomes the opportunity to contribute to the Productivity Commission's research into the economic implications of an ageing population in Australia. Australia's ageing population is likely to have a significant influence on local government in five major areas that require consideration:

- **Service Delivery** – Local government in Victoria supports and provides a range of services to older people and is currently the largest provider of Home and Community Care (HACC) services in the state. Councils are currently contributing a large proportion of the cost of the delivery of services and therefore will be severely affected by increasing demands.
- **Infrastructure and Planning** – Funding for the development and maintenance of infrastructure and assets is a major cost pressure for councils. The adequacy of public transport, safety and accessibility of the physical environment can be significant in facilitating independence for older communities. Increasing community expectations of high standard amenities are likely to put significant financial pressure on local government in Victoria.
- **Issues for Local Government as an Employer** – As with other employers, local governments will have to make significant adjustments in order to cater for the changing workforce. Councils recognise that the promotion of family friendly employment practices and the retention of older workers will maximise opportunities for a productive workforce. An important issue for the sector will be attracting and maintaining well-trained community care workers and asset maintenance workers.
- **Financial Sustainability** – A majority of local government revenue is raised through rates and charges. The increasing number of people eligible for rate and service rebates, combined with the increased demand for council-provided services and the current infrastructure deficit will have serious implications for local government's financial sustainability. An older community is also likely to be much more price sensitive making it difficult for local government to pass on cost increases in service areas where it has little, or no, control over price movements. Examples could include waste disposal, government levies and telecommunications.
- **Community Capacity Building** – Many parts of regional Australia are suffering from population loss and a decline in the mix of skills in their community. This affects the provision of essential services such as general practitioners, paramedics, teachers and tradespeople. A proactive approach to encouraging skilled migrants, graduates and persons with essential skills to regional Australia will be important to maintaining and growing community capacity. A national approach to volunteering will also be required to ensure communities have the capacity to meet increased demands for the wide range of services currently supported by volunteers.

The MAV would welcome the opportunity to discuss with the Commission in detail the submission to the economic implications of an ageing population.

## **2 INTRODUCTION**

The Municipal Association of Victoria (MAV) sought input from Victoria's 79 councils in developing this submission. A number of municipalities have previously conducted research into the economic implications of an ageing population in their specific regions and this information has been highlighted where appropriate.

Local government has a number of concerns about the economic implications of an ageing Australia, which can be broadly classified under the following headings:

- Service Provision
- Infrastructure and Planning
- Issues for Local Government as an Employer
- Financial sustainability
- Community capacity building

As the closest level of government to the community, there is often a local expectation that councils will continue to provide additional funding to meet the unfulfilled needs of an ageing population without any increase in the level of rates and charges levied. These expectations will vary between communities and be dependant upon the availability and accessibility of social and physical infrastructure. It will also vary because of the structure of individual communities, local service delivery mechanisms, employment opportunities and community capacity.

The MAV believes the projected ageing of the population will have a significant economic impact on local government in Victoria. Community resistance to increasing the level of rates and charges levied, combined with an increase in the number of property owners eligible for rate concessions, will strongly affect the ability of councils to provide adequate services and infrastructure to the community. The situation will be more severe in Victoria than in other parts of Australia as local government plays a central role in providing essential social services including aged care.

A range of other concerns were raised in relation to specific regions and municipalities, particularly by rural councils, where the implications of an ageing population is potentially greater due to dispersed communities and the higher cost of providing services.

Local government in Victoria considers the economic implications of an ageing population as a policy challenge to which it can respond provided there is recognition of the additional resource required.

## **3 PROVISION OF SERVICES**

Local government in Victoria currently provide and financially support a range of services, the cost and availability of which will be affected by an ageing population.

Local government, on behalf of the Commonwealth and state governments, provides many of these services and uses revenue from rates and charges to support programs of importance to the community.

Supplying services is particularly problematic in regional and rural areas, as transportation can increase the cost of provision substantially.

### 3.1 COMMUNITY AND RESIDENTIAL CARE SERVICES

Local government is the largest provider of Home and Community Care (HACC) services in Victoria – a situation unique in Australia – and is severely impacted as demand for services continue to rise. As well as HACC, local government directly provides Community Aged Care Packages (CACPs), State Linkages and Department of Veterans' Affairs Home Care services.

These services include home care services, delivered meal services (Meals on Wheels), property maintenance, social support, and support for Residential Aged Care. There were 29 737 HACC eligible clients in Victoria in December 2003 and this number is set to increase by approximately 9% by 2006.<sup>1</sup> For example, in the City of Boroondara, projections suggest that 1000 people may require additional services by the year 2021, which equates to an estimated 60,000 hours of direct care support.

A recent report by the Victoria Auditor General estimated that in 2002-03, Victorian local government contributed \$48 million of revenue from rates and charges into HACC services, an increase of approximately 23% between 2000-01 and 2002-03.

Substantial concern has been raised in local government about the likely impact an ageing population will have on the provision of community care. There are several reasons for this concern. First, there is substantial fragmentation in the current community care system, as evidenced by the various complementary systems that are being provided. This fragmentation increases the cost of providing services and creates difficulties for client access to programs.

Second, in addition to the increasing number of dependent people living in the community, current trends suggest that there will be increasing demands from aged people to stay in their community with better support services rather than looking to residential care. Increasing complexity of care would be required to support people to remain living in their community.

Third, councils are contributing a large proportion of the costs of operating HACC services in Victoria, a situation that is unsustainable given councils' limited revenue raising capacity. HACC funding is indexed and grows at approximately 6% per annum. However, the indexation is based upon Consumer Price Index (CPI), while the costs of HACC are predominantly driven by wage growth. When CPI is compared to the (seasonally adjusted) Wage Cost Index (WCI), wages for March 2003 to March 2004 grew by 2.3 percentage points more than inflation. This simple model indicates that the indexation component of the HACC funding is failing to keep pace with actual cost increases in the provision of the service. When this is coupled with the productivity increases that are demanded on local government, an indication of the financial pressure of providing these services emerges.

Councils are continually making up the funding shortfall to meet current service demand, or responding by reducing the number of hours of service per eligible client. For example, the City of Whittlesea noted that these demand-management strategies have already been employed in order to distribute scarce resources. Within this context, local government has no option but to increasingly fund the provision of

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<sup>1</sup> HDG Consulting Group, *Review of Home and Community Care (HACC) Program Food Services: Draft Discussion Paper*, December 2003. [http://www.mav.asn.au/CA256C320013CB4B/Lookup/ReviewHACCFoodServices%5fDraft/\\$file/DiscussionPaper16DecHACC.pdf](http://www.mav.asn.au/CA256C320013CB4B/Lookup/ReviewHACCFoodServices%5fDraft/$file/DiscussionPaper16DecHACC.pdf)

community care from rates and charges revenue or advocate for changes to current Commonwealth-state revenue sharing arrangements.

If there are no changes to Commonwealth-state revenue sharing arrangements, the rating burden on commercial, industrial and younger residential owners is likely to increase dramatically.

### **3.2 FOOD SERVICES**

Delivered food services are a principle component of the HACC services provided by local government. Councils are the main agency providing delivered meals to older people and people with disabilities in their homes and in senior citizens centres, delivering 88% of the 4.4 million meals distributed in Victoria in 2002-2003.<sup>2</sup>

Currently 71 of the 79 Victorian Councils deliver food services to people nutritionally at risk. Of particular concern is the ability of local government to respond to the needs of Culturally and Linguistically Diverse (CALD) communities to supply culturally appropriate food services.

### **3.3 COMMUNITY TRANSPORT**

A number of councils, either directly or indirectly, currently provide Community Transport services that assist older people and those with disabilities to participate in a range of activities.

The demand for these services has grown significantly in the last ten years. In many communities, these services are an essential part of local transport infrastructure. Consequently, the types of trips Community Transport services are used for has expanded from a predominantly social focus to the provision of essential day-to-day trips to medical, therapy, rehabilitation and other such services. Specialist vehicles are increasingly being used for this purpose to accommodate older persons with varying levels of mobility, including those in wheelchairs and using walking frames.

Community transport services in some communities are provided using volunteer drivers but there is an increasing trend towards the employment of paid drivers with the skills to work with special needs passengers.

Older people particularly look to Community Transport options, as there may be a number of age-related conditions that impinge upon their ability to drive.

Although public transport is an option for older persons in some geographic locations, not all communities have access to public transport. Even where public transport is available it often does not meet the needs of older persons due to timetabling and route constraints.

There is also likely to be an increased demand for Community Transport services in relation to the recently introduced regular testing of older drivers by the Victorian Government. The state licensing authority, Vicroads, has the power to cancel licenses or restrict travel times.

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<sup>2</sup> *Ibid.*

An ageing community is also likely to expect local government to have an increased advocacy role with public transport providers on the issues of flexibility, accessibility, route design, safety and hours of operation.

### **3.4 CULTURALLY APPROPRIATE SERVICES**

Some municipalities have a significant population of older residents from CALD backgrounds who will increasingly require appropriate and accessible services. For instance in the City of Port Phillip 34% of those aged 65 and over are CALD residents. Additional resources will be required to ensure that language support services and bilingual staff are available to support frail older people in their own homes or in residential care settings.

### **3.5 HEALTH PROMOTION**

Local government has a range of responsibilities in promoting healthy living in older communities. These encompass encouraging exercising and healthy eating, as well as assisting in the development and maintenance of social networks within the community. Social isolation is one of the most important issues affecting ageing communities. This was raised as a particular issue by the cities of Maribyrnong, Boroondara and Port Phillip, as these municipalities have an increasing percentage of older people who live alone.<sup>3</sup>

An existing demand for rehabilitation therapy and allied health services has also been noted. People aged 65 and over make more use of a range of medical services than younger people, visiting general practitioners and medical specialists at around twice the rate of those under 65.<sup>4</sup>

## **4 INFRASTRUCTURE AND PLANNING**

Funding for the renewal of infrastructure and assets is a major cost pressure for councils. Local government has a limited capacity to raise revenue and its ability to upgrade, replace and maintain ageing infrastructure primarily relies upon rate revenue. Councils also face additional costs in planning for new road management responsibilities because of the abolition of nonfeasance immunity for road authorities by the High Court in 2001.

The Auditor General identified a backlog of between \$1.5-\$2.7 billion for maintenance of ageing infrastructure in Victoria in 2002 and the MAV has calculated an annual infrastructure spending deficit of approximately \$256 million.

In conjunction with the inadequacy of public transport, safety and accessibility of the physical environment can be significant in restricting independence for older communities. The maintenance of street lighting, footpaths, kerbs, and sanitation services are important infrastructure considerations for older people's health and well

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<sup>3</sup> In Maribyrnong 20% of people aged 55 or over live alone as compared to 13% for the Melbourne metropolitan area.

<sup>4</sup> Dr. Marion Collis and Tina D'Urbano, Gippsland Research and Information Service for the Bass Coast Shire Council, *What Price Wisdom? The Social and Economic Impact of an Ageing Population*, February 2004, p 4.



being.<sup>5</sup> In the future, it is likely that local government will face increasing community expectations of high standard amenities, such as, for example, car parking, public seating, and public toilets.

Local government has a dual role of ensuring that existing infrastructure is renewed – despite the limited financial basis for doing so – and to provide age appropriate infrastructure in a manner acceptable to the whole community. Whilst the MAV commends the Road to Recovery program (extended until 2008) as a vital commitment to ensure local government can maintain its ageing infrastructure, addressing the future physical asset requirements will be a substantial policy challenge as the population ages.

#### **4.1 HOUSING ISSUES**

Affordable, accessible and suitable housing are critical for the aged. While councils generally do not directly provide residential care for the aged, they play an important role in advocating and facilitating the advancement of meeting the housing needs of older people.

Some councils noted that as their municipalities experience gentrification, there has been a decline in affordable housing and rental property options. In the City of Port Phillip for instance, there is “an inadequate supply of appropriate housing options for older residents who are at risk of eviction and/or homelessness” and similar situations are likely to be occurring in other municipalities. There is a concern that this will be exacerbated by decreasing rental affordability and the dwindling supply of pension level supported residential services, rooming houses and other low cost accommodation. While the provision of affordable housing is not, *prima facie*, a responsibility of local government, it is likely that councils will increasingly be involved in facilitating such provision as affordability decreases.

The maintenance of residential care facilities is another central housing concern for local government. The closure and relocation of facilities has significantly affected some metropolitan municipalities such as the City of Boroondara, where six nursing homes have closed over recent years. In some cases these closures have been associated with increasing operational costs and capital works.

### **5 ISSUES FOR LOCAL GOVERNMENT AS AN EMPLOYER**

Local government is in many instances a major local employer and in this capacity can be a role model for labour force participation. The promotion of family friendly employment practices and the retention of older workers will maximise opportunities for a productive workforce. These practices will contribute to a reduction of the financial dependency ratio,<sup>6</sup> and are in line with the current policy position advocated by the Commonwealth Government and major international think-tanks, such as the OECD, as a means of ameliorating some of the negative fiscal consequences of an ageing population

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<sup>5</sup> *ibid*

<sup>6</sup> The financial dependency ratio is a ratio between the working age (15-64) and non-working age (0-15 and 65+). The people of non-working age typically receive high levels of government support, although this measurement is crude and could be more accurately constructed.

In a number of occupations, an increased level of Occupational Health and Safety risk related to these practices will require planning and ongoing management. It should be noted, however, that these issues are not isolated to the local government sector and are of considerable concern for many industries.

## **5.1 WORKFORCE DEVELOPMENT**

The age profile of local government suggests the sector will be facing a substantial turnover of staff in the near future. A lack of developmental infrastructure and a culture of intra-sectoral employment mean that a large number of staff will be retiring in the next decade.

Although this is an issue for the whole sector, there is a particular concern with community care workers, who are currently difficult to attract and retain.

In the context of a growing demand for casual labour, the traditional pool of workers prepared to work part-time and on a casual basis in the community sector is decreasing. Changing social trends and demographic characteristics are likely to influence the value placed on part time and casual employment. As community care is predominantly a part-time sector, it is likely that attracting and retaining a well-trained workforce will become increasingly difficult. An industry-wide workforce plan that explores future service trends and requirements is critical in ensuring quality care.

Labour shortages are also expected to influence the provision of infrastructure maintenance services by local government. While there has been some restructuring of the infrastructure maintenance workforce in the sector over the last decade, the average age of workers in these areas remains relatively high. As with many skilled and semi-skilled occupations there have been difficulties in recruiting young people to these essential roles. The nature of many of these roles, particularly in terms of manual handling requirements, makes them unsuitable for older workers restricting the ability to keep existing employees in the workforce for longer periods. Increased mechanisation is one solution but this carries with it a requirement for capital investment which is not always possible without placing further pressures on scarce financial resources. This is particularly the case in rural and regional communities.

## **6 COMMUNITY CAPACITY BUILDING**

Many communities across Australia are suffering from the impacts of economic and structural change. These changes have seen communities lose basic health, financial, education, community support and employment services. Some communities have also lost significant local employers, resulting in loss of work opportunities and a consequent outflow of skilled workers.

The consequences for many rural and regional communities have been a decrease in net population, a proportional increase in the number of older persons living in such communities and a decrease in the availability of basic health and support services.

The Commonwealth and Victorian governments have sought to address this through a variety of community capacity building initiatives and through the provision of incentives to new graduates and overseas-qualified professionals to locate in these

communities. This has extended to offering TPV and other new arrival migrants assistance to locate in these areas in order to increase the pool of local labour and generate economic activity.

As communities continue to age, it will be necessary for these programs to be continued and enhanced if many rural and regional centres are to survive. National migration policy needs to reflect this need and allow state and communities who wish to attract migrants and refugees in order to build community capacity to continue to do so.

## **6.1 IMPACT ON VOLUNTEERING**

Voluntary work not only provides services that have an economic value, but also has a social value in building community networks. Older constituents make up a large percentage of volunteers in most communities, and make a significant contribution in caring for others on an informal basis. In the City of Maroondah, for example, 60% of volunteers are aged 60 or over.

The implications of an ageing volunteer base are twofold: firstly there will be a reduced number of carers and volunteers as workforce productivity and retirement age increase; and secondly the number of residents requiring volunteer assistance in the form of home maintenance, transport and companionship will increase as the population ages.

A converse perspective argues that the number of volunteers will in fact increase due to the ageing population, albeit occurring in a context of a mix between part-time employment and volunteering. This argument is based on the premise that although the population is ageing, older people will be living longer and healthier lives. Research has also shown that many future retirees express an interest in voluntary work and that participation is likely to be highest in the early years of retirement or semi-retirement.

Rural and regional communities are particularly reliant on volunteers for the provision of fire and other emergency services. Any decrease in the pool of volunteers in these communities will have significant affect on the community.

A national approach to volunteering is required to increase the pool of volunteers by addressing some of the barriers to volunteering.

The costs associated with being a volunteer are one of the most common reasons given by people for not giving of their time. Many councils currently provide small levels of financial and other assistance to people who volunteer. Reimbursement of some out-of pocket expenses such as petrol is common. Arrangements for assistance with insurance and other costs are also becoming increasingly common. Such support schemes are necessarily tightly controlled and rarely reimburse the full costs borne by the volunteer. Other councils contribute to local service clubs and other organisations to assist them with the cost of carrying out volunteer activities in the community.

Local government resources are also committed to training and developing volunteers to work with particular sections of the community.

Rising fuel costs, concerns for personal liability, and the desire of many older persons to supplement fixed incomes with some part-time work is placing pressure on the pool of volunteers available to local communities.

A national system for volunteers offering tax, or other incentives, is seen to be essential in order to address these problems and maintain a pool of volunteers into the future.

## **7 FINANCIAL SUSTAINABILITY**

There is substantial apprehension regarding the financial sustainability of the local government sector as the population ages, and demand for services delivered by local government on behalf of the Commonwealth and Victorian government increases. Without an increase in the level of grants flowing to local government, councils will continue to rely primarily on rates revenue to fund an increased provision of flexible service delivery.

In 2000-01, 51% of local government revenue was raised through rates paid on properties. Rates are linked to the relative property value within a municipality, providing a nexus between the assets of a ratepayer and the quantum of rates paid. However, the link between property assets and income may be weak, resulting in what is commonly termed the 'income poor but asset rich' phenomenon. This is an issue of particular concern to pensioners, who are likely to increase in number as the population ages.

This is likely to profoundly affect local government. Given that local government is currently raising a majority of its revenue through rates (although there is substantial variance between municipalities), any influence on ratepayers' ability to access liquid funds to pay a property-based tax will reduce councils' ability to raise sufficient revenue.

Local government service costs are currently increasing by an amount greater than the real per capita escalator employed by the Commonwealth to index general purpose Financial Assistance Grants. This general trend places a pressure for local government to increase the proportion of revenue raised by rates in order to maintain service delivery, and adds a further strain on rates being raised. Because local government costs are often driven predominantly by wage growth, CPI indexation has caused councils to consistently include own-source revenue in the provision of these essential community services.

It has been commonly predicated that an ageing population will result in an increase in the number of persons eligible for a rate rebate, and other service rebates, which in the long term will affect funding levels for the provision of aged care services. While the Victorian Government currently provides a rate rebate of \$160 (up to a maximum of 50% of rates), a number of councils voluntarily provide a further rebate to pensioners. Local government is likely to face concerted political pressure to increase the level of voluntary concessions despite the limited capacity to raise own-source revenue.

## **8 CONCLUSION**

The predicted ageing of the population is likely to have a substantial fiscal influence on local government. Over the past two decades, local government provision of

human services has increased considerably, while revenue has relied predominantly on rates.

The fundamental issues facing local government is the growth in responsibilities – particularly for human services, which an ageing population are likely to consume substantially – while maintaining the traditional principle source of revenue in the form of rates.

All evidence suggests that this growth in service provision has reduced the expenditure on asset renewal. The combined affect of these historical trends is that the responsibilities of local government are expanding, particularly in terms of service provision and infrastructure development. Demands in both these areas are likely to increase as the population ages.

Underlying the predicted fiscal affect of this changing role of local government in Victoria is the constraint surrounding the revenue base of local government: rates. As the principle source of revenue able to be manipulated to meet expenditure requirements, local government has been forced to increase rates revenue in order to subsidise the provision of valuable community services.

In its role as a major local employer, local government must be aware of the need to promote family friendly employment practices and to retain older workers in order to maximise opportunities for a productive workforce.

Attracting and maintaining suitably trained community care workers and volunteers will be an important goal over the coming years.

Australia's ageing population will clearly have a range of economic implications for local government across a number of areas including service provision, infrastructure, employment and sustainability. Strategic planning will be required to ensure that councils are adequately equipped to meet the needs of older members of the community now and into the future.