Growth study: examining how growth affects councils

Summary of stakeholder feedback

Background

Currently there are 10 interface councils – Cardinia, Casey, Hume, Melton, Mitchell, Mornington Peninsula, Nillumbik, Whittlesea, Wyndham and Yarra Ranges. These interface councils have experienced significant growth over the last decade and this is expected to continue. A number of other councils are also experiencing significant growth, including infill growth.

In 2016, three councils (Ballarat, Casey and Wyndham) submitted higher cap applications that specified growth as a key reason for requiring additional revenue above the average rate cap. In assessing these applications, we were careful to ensure that any rejection of a higher cap did not compromise the council's ability to service growth particularly over the longer term. We indicated the need to better understand the major financial issues associated with growth area councils.

Subsequent to our 2016 higher cap application process, we appointed Peter Brown to undertake an independent review of our first year implementation of the FGRS. In the review, Brown also recommended:

> *A review is undertaken into any special financial issues associated with growth area councils.*

In light of Brown's recommendation, and our undertaking that the higher cap assessment process should address growth more comprehensively, we appointed Arup to undertake an independent growth study.

In September 2017, we released Arup's growth study report and invited feedback from stakeholders. We received three written submissions from Casey City Council, Hume City Council, and Wyndham City Council. We also met with the Interface Councils group.

This paper summarises what can be learned from the growth study, stakeholder feedback on Arup's growth study report, our response to stakeholder feedback, and next steps.

What can be learned from the growth study

The growth study showed us that there is limited information and data available to help interested parties to better understand the dynamics of growth and the impact of growth on the capacity of councils to provide services and infrastructure to the community over time. Arup's growth study report made a number of relevant observations.

- There are different infrastructure requirements of councils at early growth phase, mid-growth phase and mature growth phase.
- The challenges of growth depend on a number of factors including the speed and scale of development, and the capacity of existing infrastructure.
  - A key challenge of growth is the timing i.e. the lag between infrastructure provision and rates revenue.
- Some councils believe there are impacts of growth on service provision related to lower socioeconomic demographics and younger age demographics. However, this is not yet substantiated.
- Developer contribution plans prepared prior to 2012 are underscoped and underfunded.
  - More recent developer contribution plans and infrastructure contribution plans provide a higher contribution.
  - Developer contributions are not a primary source of revenue, rather a supplementary component to council's contribution.
- There is capacity for councils to improve asset management. This includes adequately linking asset management plans to services.
- There is capacity for councils to improve internal processes. This includes monitoring the implementation and remaining liability of developer contribution plans.
- There is a range of measures to manage growth that councils should consider before applying for a higher cap.

Stakeholder feedback on Arup's growth study report

Stakeholder feedback	Our response
Growth does not pay for itself over time; there is a **permanent funding gap**.	If this is the case, a council should provide evidence to demonstrate a permanent funding gap ('long-term funding need') in its long term financial plan.
Growth does have an impact on service provision and operational costs.	If this is the case, a council should provide evidence to demonstrate the impact of growth on service provision and operational costs.
ESC should consider **both** historical and forecast growth in rateable properties and population.	A council should provide data on historical and forecast growth, and the underlying assumptions, as supporting evidence in a higher cap application.
ESC should consider existing asset management reporting e.g. National Asset Management Assessment Framework (NAMAF) and MAV STEP program.	We support the use of existing reporting frameworks such as NAMAF and MAV STEP program, and we encourage a council to use information from these as supporting evidence in a higher cap application.
Increased use of special rates/charges schemes and increased user fees could unfairly impact some ratepayers.	Whether a council introduces a special rate/charge or increases user fees is at the discretion of the council. For our purposes, a council should demonstrate that it has **considered** special rates/charges and user fees and consulted the community on these options.
Consideration of alternative infrastructure delivery models can be difficult due to timing of higher cap application and/or meeting delivery timing requirements under grant funding programs.	A council should demonstrate that it has **considered** alternative infrastructure delivery options **over time**, rather than just for the period of the higher cap application.
Community engagement on trade-offs can be difficult for Precinct Structure Plans approved by the VPA as council has a legal requirement to deliver the PSP and associated DCPs.	If this is the case, a council should provide information to its community that it has limited options, and clearly explain the reasons for pursuing a higher cap application.

The recommended questions might be an appropriate tool to guide and frame higher cap applications. Growth councils should not be subject to additional requirements.	The key focus in our higher cap assessment approach is demonstrating a long-term funding need. Arup's recommended questions may help a council to clarify its underlying need due to growth; they are not additional requirements to be imposed by us.
ESC should workshop debt guidelines with Local Government Victoria and the sector.	We have no role in any new debt guidelines. We previously recommended that government develops guidelines on debt for the sector. We will raise the sector's feedback on this with government. For our purposes, a council should demonstrate that it has **considered** debt and consulted the community on this option.
There should be further analysis around the impact of growth on overall financial position and infrastructure funding; cash balances, treasury management and debt; funding for local, regional, DCP and capital works infrastructure; and life cycle cost of assets.	We will continue to work with councils to improve our collective understanding of growth and its impacts.
There should be a state inquiry into the **dynamics of growth**.	We will raise this feedback with government.
ESC should consider a different rate cap for growth councils.	All councils are different, even amongst growth councils. We consider it would not be possible to determine a uniform rate cap that would be appropriate for all growth councils. The variation process provides a mechanism for growth councils to apply for a higher cap to meet their individual needs if the minster's cap is insufficient.

Our expectations

While we recognise managing growth can be a challenge for councils, our approach to assessing higher cap applications is consistent across all councils. Councils must address the six legislative matters and demonstrate a long-term funding need. That long-term funding need may be due to growth or other reasons.

Councils should refer to our guidance material released in early November for further information on applying for a higher cap.[1] We will not impose additional requirements on growth councils applying for a higher cap.

Next steps

1. We will continue to work with the sector to better understand growth and the impact of growth on councils.
2. We will raise with government some of the ideas and issues raised by stakeholders that are outside the scope of our role.
3. We encourage the sector to share ideas, knowledge and experiences around managing growth.

[1] Essential Services Commission 2017, *Fair Go Rates system: Guidance for councils 2018-19*, October.