



Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

15 May 2015

Submission from the Peri Urban Group of Rural Councils (PUGRC)

I write on behalf of the Shires of Bass Coast, Baw Baw, Golden Plains, Macedon Ranges, Moorabool, Murrindindi and Surf Coast. We are concerned about the impact of rate capping on our communities, and our ability to deliver needed services and infrastructure into the future if the formula for deciding upon the level of the cap, and how to apply for an increase in rates above this cap, is not carefully thought out with collaboration between State Government, Local Government and the communities we represent.

We welcome the opportunity to provide comment into the Essential Services Commission review into the introduction of rate capping in Victoria.

The peri urban region is located on the doorstep of Melbourne's growth boundary and the Regional Cities of Geelong, Ballarat and Bendigo. Accordingly, the peri urban region plays an important role in Victoria's population growth solution, while maintaining and strengthening local town & village character, lifestyle, tourism, economic and agricultural pursuits.

The peri urban region is growing rapidly, relative to our existing resident base and at higher rates than the Regional Cities. To 2031, the population across the peri urban region is predicted to grow by an average of 50.22% in comparison to the Regional Cities of Ballarat, Geelong and Bendigo with predicted growth of 39%.

Our major growth towns or areas will far outstrip the growth in the Regional Cities, for example:

- Maddingley (Moorabool) – 253% growth in population to 2036
- North Wonthaggi (Bass Coast) – 131% growth in population to 2036
- Gisborne (Macedon Ranges) – 87.3% growth in population to 2036
- Warragul (Baw Baw) – 115.2% growth in population to 2036

Our Shires are characterised by:

- Large municipalities – we are four times the size of the Regional Cities.
- Enormous road networks – our sealed and rural roads stretch 22,000 km, which is sufficient to circumnavigate mainland Australia.
- Our investment into roads and bridges consumes half of our capital works budgets. In contrast, the roads and bridges investment by the Regional Cities accounts for just ¼ of their capital works budgets.



- We have small budgets. Our total budgets are one quarter the size of the Regional Cities of Geelong, Ballarat and Bendigo. In fact Geelong's garbage charge is equivalent to our average total rate base.
- Our Shires contain enormous tracts of un-rateable lands including water catchments, national parks, forests etc.
- Productive agricultural lands. The region contains 10% of Victoria's productive agricultural lands and yet produces 17% of the primary produce for Victoria.
- Many of Victoria's most significant tourism assets including Torquay, Bells Beach and the Great Ocean Road, Philip Island's fairy penguins and motor racing, Hanging Rock, Lake Eildon, snow fields and many picturesque heritage towns.

Perhaps most importantly, we are facing significant pressure from population change. Identified in Plan Melbourne, as the region for growth outside of the Melbourne Growth Boundary, we are, in most cases, growing rapidly in pockets and managing declining population in other areas. Many of our towns are not capable of accommodating growth and those that can require infrastructure.

To simplify our response we have used the same sections as the consultation report.

1 WHAT ARE WE REQUIRED TO DO?

- **Manage population change with appropriate levels of services and infrastructure.**
The Peri Urban Councils are managing rapidly growing populations in some areas and declining towns in others.

Due to traditionally small resident bases and large municipalities, investment into infrastructure has been limited since the gold rush times and consequently many communities are struggling to accommodate massive increases in resident populations on road and bridge networks that were originally designed for horses and carriages.

New residents from metropolitan areas move to our region with expectations of services and infrastructure to match those of metropolitan areas. In contrast, we have many towns without reticulated services (water, gas, sewerage), mobile phone coverage and with basic of infrastructure that is minimally maintained.

The challenge for our Councils is to fund growth infrastructure and increase services while maintaining basic and improved levels of services and infrastructure to smaller towns. Our Councils acknowledge that current residents should not be made to foot the bill for infrastructure and services for future residents but there are few options to deliver these vital projects.

- **Protect essential agricultural lands from the impacts of development and population growth.**



The Peri Urban region contains 10% of Victoria's productive agricultural lands. We are basically the food and fibre bowl closest to Melbourne and we produce 17% of Victoria's primary produce.

Locally grown food is essential for the future of our State in terms of food consumption and export opportunities. It is also a key attractor to our region in terms of tourism.

Maintaining and protecting these lands and their uses from the encroachment and impacts of residential growth comes at a significant opportunity cost to our Councils. In economic terms, it would be simple to allow for the rezoning of large tracts of farm land to residential to encourage a larger population base and consequently a larger rates base to fund services and infrastructure. The consequences of this opportunistic policy decision would be catastrophic to our region and our State in the longer term.

The protection of agricultural lands and financial support for the Councils who act as their guardians must be paramount in discussions about rate capping and funding for these areas.

- **Manage the impacts of significant tourism visitation including maintaining crown lands and publicly owned tourism assets.**

The peri urban region has long been the playground of residents from Melbourne, the Interface Council areas and Regional Cities. Our Shires are used as weekend and holiday playgrounds with populations in some instances doubling or tripling during peak holiday seasons (Surf Coast and Bass Coast). Our Councils are responsible for providing services including streetscape and beautification works, rubbish collection, visitor information, bush fire reduction and weed management / slashing to cater to visitors who in many instances have a negligible positive impact on our local economies.

Our rates are calculated to cover the costs of providing these services to visitors and often at the expense of our existing resident rate base.

2 WHY IS IT IMPORTANT TO GET IT RIGHT?

The population growth challenge that confronts Victoria is significant. If the growth is planned, funded and delivered appropriately, we will all leave a positive legacy for generations to come.

Capping rate increases to CPI across the peri urban region will potentially result in reductions in staff, services and protections for all that makes this area important to Victoria. Our estimates show that a capping of rates in 2012/13 as compared with 2011/12 would have resulted in a reduction of \$12.2 million from the budgets of the seven Peri Urban Councils or \$1.7million per Council. Calculation based on:

\$168,460,456	Total rates base (11/12)
+\$3,706,130	Ave growth of 2.2%
+\$4,885,353	CPI at 2.9%
+ \$177,051,939	Total rates forecast for 12/13 based on rate cap



\$188,248,176	Actual total rates in 21/13
\$12.2 million	Shortfall

3 WHAT ARE SOME OF THE KEY ISSUES?

- Maintenance backlog – our Councils, like many rural and regional Councils, have significant maintenance backlogs due to impacts of drought, natural disasters, reducing resident and rate bases in some areas and community pressure to constantly deliver new infrastructure. Capping of rates, without an assessment of a need for increases due to a particular council's local needs, will undoubtedly impact on how this maintenance backlog is managed through our asset management systems.
- Rural roads – our Shires, unlike metropolitan Shires, contain significant tracts of unsealed roads. These are an ongoing maintenance burden and a significant cause of resident dissatisfaction. In the 2014 Community Satisfaction Survey, rural unsealed roads were one of the biggest points of dissatisfaction for respondents.

The condition of these roads are a significant issue for residents, visitors, State and Local Government and the abolition of a dedicated rural roads and bridges fund from the State Government will only make this situation worse.

- Low population densities – the Peri Urban region is 16,875 km² in size and accordingly the population is dispersed across significant areas. The average population density across the peri urban region is just 16 people per km². In contrast, the population density for the Regional Cities of Geelong, Ballarat and Bendigo is 112 people per km² making it a simpler proposition to deliver infrastructure and services to larger groups of residents and far more cost effective.
- New infrastructure – the population growth challenge requires new infrastructure immediately, or in the short term, for new residential developments and communities. Councils do have access to Developer Contributions, but only when developments reach a certain threshold and often only when the necessary expertise is employed within the Council to manage a DCP process or successfully negotiate a Section 173 agreement. Rate capping without consideration of the above, will hamper our ability to deliver necessary infrastructure in advance of the critical threshold where contributions may be paid and to properly connect these outlying communities into the fabric of our existing towns.
- Increasing demands for services – located as we are on the growth boundary for Melbourne and adjacent to the Regional Cities of Bendigo, Ballarat and Geelong, we are increasingly feeling the effects of neighbouring residents utilising our infrastructure and services rather than the overcrowded facilities in their own Shires. We now have kindergartens and early childhood facilities with waitlists by postcode due to the influx of



neighbouring Shire residents and overcrowding at basketball stadiums and other sporting facilities.

- Recovery from natural disasters and ongoing liability for infrastructure and reduced growth.

4 WHAT IS OUR APPROACH?

Principle 1

Local communities differ in their needs, priorities and resources

- The framework should support individual council diversity and support their ability to deliver different types and levels of services, with limited resources, in response to their community's preferences.
- The framework should take into account distinguishing features such as population growth, any particular service or infrastructure needs, and the sources of income available to councils
- Councils should be able to show that they have engaged with and considered their community's and ratepayer's views on different rate levels and service priorities.
- The framework should be flexible to respond effectively to any major changes affecting councils and their communities.

PUGRC RESPONSE - AGREE

PRINCIPLE 2

Local communities and ratepayers are entitled to hold their councils to the highest standards of accountability and transparency when setting rates

- The rates capping regime (together with the variation process) recognises that ratepayers' expectations should be central to councils' consideration of any proposed rate increases.
- Because individual ratepayers often have little 'bargaining power' in councils' rate-setting processes, the framework should provide ratepayers with confidence that proposed variations above the cap are being independently assessed by the Commission.

PUGRC RESPONSE – AGREE

PRINCIPLE 3

The framework should support the autonomy¹⁸ of councils to make decisions in the long term interests of their community and ratepayers

- The autonomy exercised by councils should align with the effective and efficient use of ratepayer funds.
- A cap arrangement recognises that communities and their councils have limited resources and that councils must be disciplined in how they prioritise their activities and pursue efficiently delivered services.

PUGRC RESPONSE - AGREE

PRINCIPLE 4

Councils will need to satisfy the burden of proof outlined in the framework when seeking a variation above the cap

- When a fully demonstrated case is made by a council and the Commission is satisfied that it meets the framework's requirements, the council should be allowed to increase rates higher than the cap.
- We will, through this review, develop working definitions and criteria to be applied for the exceptional circumstances specified by the Government in our terms of reference.



- We will also publish guidelines and fact sheets on the key requirements of the regime to assist councils in the process.

PUGRC RESPONSE – CONCERNED. The burden of proof should be such that it can be demonstrated and completed without the requirement for consultants and expensive studies. The ESC should make available a “Flying Squad” style team who can work with smaller Councils to complete this requirement.

PRINCIPLE 5

Rate increases should be considered only after all other viable options have been explored

- The framework should promote the right incentives (and minimise any perverse incentives) for investment in service delivery, maintenance of infrastructure and the pursuit of ongoing efficiencies. The framework should discourage expedient decisions contrary to communities’ and ratepayers’ long term interests.
- The framework should require councils to demonstrate that they have assessed (and where relevant, consulted on) options other than rate increases. Depending on the circumstances, these other options may include (but are not limited to): cost savings in existing functions; alternative models of service delivery; reprioritisation of expenditures; or alternative funding measures (including fee for service). Any relevant council policies on these matters should be transparent and tested with local communities.

PUGRC RESPONSE – CONCERNED. Most small Councils have been downsizing and realising efficiencies for some time. Any ability to further downsize without reducing staff numbers and cutting some services entirely may be extremely difficult.

PRINCIPLE 6

The framework should support best practice planning, management systems and information sharing to uphold council decision making

- Relevant information should be provided to ratepayers by councils in an accessible and timely manner to allow discussions and engagement with ratepayers on rate increases, services impacts and financial sustainability.
- The engagement with the community by councils should be an integral part of the councils’ annual and long term planning, budgetary and rates setting process. Evidence of effective engagement should form part of the case for seeking rate variations.

PUGRC RESPONSE – AGREE IN PRINCIPAL. However, information is already provided to residents in a timely manner to allow discussion. Additional community engagement may come at a cost to the residents.

PRINCIPLE 7

The framework should be flexible and adaptable

- We expect the framework will need amendment from time-to-time as councils, communities and the Commission identify opportunities for improvement.
- In light of the available timeframes, it may be necessary to consider a 12-month transition period over which the framework is implemented.
- As councils, communities and the Commission become more familiar with the framework, we expect councils may seek multi-year rate variations (say, for 3-5 years).

PUGRC RESPONSE – AGREE. Suggest that it is implemented in a staged manner with larger Councils commencing in 2016 and smaller councils given a further 12 months to prepare.

5 WHAT ARE THE RELEVANT QUESTIONS FOR THE REVIEW?



What are legitimate factors for a variation?

- population growth
- decreases in government grants
- increased statutory responsibilities
- extraordinary circumstances
- decreases in other sources of income
- other (e.g. community need)

The use of the ‘other’ and ‘extraordinary circumstances’ categories are too broad and won’t provide any level of certainty to struggling Councils working through the system. We suggest that additional categories should be added including:

- **Natural disaster**
- **Community wellbeing – for smaller communities to provide**
- **Population decline**
- **Significant economic downturn – where a significant local employer has closed down and investment is required to stimulate the towns economy.**

THE FORM OF THE CAP

1. While a cap based on CPI is simple to understand and apply, are there any issues that we should be aware of?

Local Government Enterprise Bargaining Agreements are often negotiated to include annual salary increases at levels higher than CPI. Accordingly limiting rate increases to CPI will result in a deficit in Council revenue relative to employee wages.

2. Should the cap be set on a single year basis? Is there any merit in providing an annual cap plus indicative caps for the next two to three years to assist councils to adopt a longer term view in their budgeting and planning, particularly when maintaining and investing in infrastructure often takes a longer term perspective? How should such a multi-year cap work in practice?

The cap should be multi-year with the opportunity to return to the ESC to make a case for changes during the term of the agreed cap. The work required to justify the level of rates will be unwieldy on an annual basis. Many Councils are already struggling with the level of reporting required for Performance Reporting and producing annual reports for the ESC would divert resources away from other Council business.

5. Should a single cap apply equally to all councils?

No. Smaller Councils should be subject to a higher than CPI cap unless they choose to apply for an alternative level of rates above this level.

THE VARIATION PROCESS

12. Under what circumstances should councils be able to seek a variation?

The factors outlined above with our additions.

13. Apart from the exceptions identified by the Government (namely, new infrastructure needs from a growing population, changes in funding levels from the Commonwealth Government, changes in State Government taxes and levies, increased responsibilities, and unexpected incidents such as natural disasters), are there any other circumstances that would justify a case for above cap increases?

Yes. See above.



TRANSITIONAL ARRANGEMENTS

18. What transitional arrangements are necessary to move to the new rates capping and variation framework? Is there merit in phasing in implementation over a two year period to allow for a smooth transition?

Yes. A two year transition with larger Councils implementing the process first would ease the burden on smaller councils and allow more time to prepare. Additionally, the early mistakes of implementation can be borne by those who can more easily afford them.

OTHER MATTERS

20. Is there a need for the framework to be reviewed to assess its effectiveness within three years time?

Yes.

21. How should the costs of administrating an ongoing framework be recovered?

State government funded without reductions to Local Government programs and funding streams.

We have noted with some disappointment that two of our member Councils were not named on the map (page 34) provided in the consultation paper – Moorabool and Bass Coast.

We thank you for the opportunity to provide feedback as part of this review. If you require any further detail or clarification, please contact our Executive Officer, Paula Lawrence on 0412 370 651 or via plawrence@moorabool.voc.gov.au

Yours sincerely

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