Mildura Rural City Council Response to the Legislative Council Inquiry into Rate Capping

MILDURA RURAL CITY COUNCIL
RESPONSE TO

LEGISLATIVE COUNCIL INQUIRY INTO RATE CAPPING

September 2017

This document has been prepared by Mildura Rural City Council officers and approved by the Chief Executive Officer for submission to this inquiry.
DOCUMENT CONTEXT

The Environment and Planning Committee has been undertaking a series of rolling inquiries into the Fair Go Rate Capping System since May 2015, when the Legislative Council resolved:

That pursuant to Sessional Order 6 this House requires:
the Environment and Planning Committee as part of its oversight of Local Government Victoria, to inquire into and report every six months on the outcome of the State Government policy of local government rate capping on councils’ viability, service impacts on local communities and impacts on the provision of local infrastructure;

The system has now been in place for two years and the Committee considers it timely to seek further submissions on how the system is tracking, what have been the impacts on both Councils and Ratepayers and what issues have arisen from the system. The Committee has tabled four reports to date and is required to table its fifth report on this matter no later than 14 December 2017.

The Committee invites submissions from any individuals or organisations who wish to express views on any aspects of this Inquiry and this document is in response to this invitation.
MILDURA LOCAL GOVERNMENT AREA

The Mildura Rural City Council local government area is located in the north-west corner of the state of Victoria. The municipality covers an area of 22,330 square kilometres or approximately 10 per cent of the state with 28,411 rateable properties as at the end of the 2016 financial year and a population of 53,878.

As a local government organisation, we deliver more than 100 different services, facilities and infrastructure for people who live, work and visit our region. The work we do is vital to ensure our regional city continues to grow, attract new business and investment.

MILDURA RURAL CITY COUNCIL SUSTAINABILITY AND SERVICE DELIVERY

At the end of 2012, Mildura Rural City Council (MRCC) commenced what we have called a ‘Sustainability Review’. The intention of this review has been to systematically analyse and evaluate each service area across the organisation asking two fundamental questions:

1. Should Council be providing this service?
2. If so, what should we be providing, at what level and how can we do that as efficiently as possible?

The sustainability review process and objectives are:

- To review all services provided by Council against the Victorian Local Government Best Value Principles and to establish:
  - best service mix to meet abroad range of community expectations
  - most appropriate delivery model for each service
  - appropriate levels of service
- Identify and maximise cost savings now and into the future
- Identification of opportunities for improvement/better ways of delivering services
- Improved targeting of services

MRCC has a defined end-to-end process supported by templates and our Business Improvement Officer, who facilitates the process for each review. We commenced by prioritising our reviews according to a number of criteria (i.e. whether or not the service is a statutory function, whether there are already influences that are impacting on that service, etc.) Other triggers have also brought forward or shuffled the order of reviews, including legislative changes, staff leaving, grant funding changes etc.

The catalyst for starting down this path was not rate capping or the freezing of grant indexation; it was the availability of objective data that clearly spelled out our community’s lack of capacity to pay.
The inherent characteristics of our municipality mean that we are required to deliver services and infrastructure as a regional city but the reality is that our revenue raising capacity is only that of a large shire.

The community only has so much money to spend and changing the mix or percentage of whether revenue is raised via rates via a cap or user fees and charges is futile.

A 2016 study (Whelan Report) of our municipality’s financial sustainability reinforced these points, revealing that population density, dispersion and remoteness were not only significant influencing factors in residents’ capacity to pay, but were what set the Mildura Rural City Council area apart from much of the State.

Mildura’s population density was a fifth of the regional city average, while its rate of dispersion was more than double the regional average. Our remoteness meanwhile was almost five times the Regional City Average.

Mildura, as with other regional centres, is experiencing a prolonged period of economic transition. Traditionally strong industries of horticulture, agriculture and manufacturing are undergoing a significant adjustment period, contributing to high levels of economic and social disadvantage and poor levels of regional growth, relative to the Victorian average.

The indicators of these inherent problems can be seen in the following trend data:

**Social Indicators**
A range of poor social indicators compared to state wide averages and ongoing dependency on support (Mildura is the third most socio economically disadvantaged area in Victoria).

**Low Income levels**
The average median household income is $1,064, considerably lower than the Victorian average of $1,419. Recent Australian Bureau of Statistics (ABS) census data indicates 24 per cent of households make do with less than $650 gross weekly income.

**Lack of Jobs Growth**
The employment projections to November 2020, forecast an overall jobs growth of 4.4 per cent in total jobs in Victoria North West region, half that of the Victorian average of 8.8 per cent.

**High Unemployment**
The current Unemployment rate (March quarter 2017) is 6.54 per cent, with 1,657 people looking for work. Significantly higher than the Victorian rate of 5.8 per cent and Australian average 5.7 per cent.

**Low Population Growth**
The current population of 53,878, has grown by an average of just 1.1 per cent per annum since the previous 2011 Census. Future population growth predictions averaging 0.65 per cent per annum, with an expected population to reach 59,400 by 2031.

**Major Transitions Occurring in Traditional Industries**
The employment in agriculture, forestry and fishing has reduced by 35 per cent between 2001 and 2011. Retail trade, health care and social assistance are now the two most dominant sectors, employing some 5,358 people.

**Geographic Isolation**
Mildura remains the largest regional centre in Victoria without a passenger train service, adversely affecting the community's capacity to interact effectively with existing public transport services to metropolitan centres.
THE COMMUNITY

MRCC, like other councils, develops a Community/Council Plan through engagement with the community. We use the IAP2 method for community engagement. Sitting underneath the Council Plan is a series of more specific strategies designed to achieve agreed outcomes.

These strategies are also developed through engagement with the community.

The sum total of all those strategies amounts to far more than Council can afford to undertake in any given year but the way we see it is that this lays out the landscape and once we know what that looks like, it becomes much easier to prioritise, to group or integrate actions, to capitalise on funding opportunities.

Obviously, there are issues to manage in regard to creating (or not creating) community expectation and this understanding needs to be part of the engagement process.

HOW DO MILDURA RURAL CITY COUNCIL RATES COMPARE TO OTHER AREAS IN VICTORIA?

According to the 2015/2016 Victorian Government data, Mildura Rural City Council residents on average pay less than residents living in similar Councils. The data states the average residential rate for Mildura residents is $1,376.88. This compares with an average of $1,620.59 for similar-sized Councils and $1,525 across Victoria.
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Residential Rates per Assessment

Source Strategy Plus

Due to our size, remoteness, low population density and large number of services, Mildura Rural City Council incurs increased costs per resident than larger, more densely populated Councils including Ballarat, Bendigo and Latrobe - and only marginally lower than all similar-sized Councils that have much smaller geographic areas.
With Mildura being 550 Km from Melbourne, 400 KM from Adelaide and 1015 km from Sydney introduces further challenges in regards to freight costs for goods and raw materials along with access to a limited number of local suppliers for service provision or associated travel and accommodation costs being incurred to access capital city or metropolitan based providers.

The significantly larger area and resulting number of remote townships (and therefore population dispersion) that Council services leads to the necessary duplication of facilities (and therefore costs and staffing requirements), such as halls, libraries, waste services, public amenities, parks, swimming pools and sporting facilities.

Council’s expansive road network compared to similar-sized Councils is a prime example and a significant contributor to our higher cost per population. When considering population of the municipality divided by the total kilometres of roads Council is responsible for, there are 10 people per length of road in the Mildura Rural City Council area compared to almost 50 people in similar Councils, and 101 people Statewide. This highlights Mildura’s unique size and distance, and subsequently time, cost and resource demands to provide services.
While the municipality does include large areas of national park, staff must still negotiate or drive around these parks to provide services, as well as access Council roads and other infrastructure, particularly in outlying areas. This increases the time and cost of providing services.

The table below provides a summary of staffing levels between comparative Councils indicating the leanness of the management and staff structure.
Asset Renewal

Councils across Australia raise approximately 3.5% of the total taxation collected by all levels of government in Australia. In addition, Councils are entrusted with the maintenance of more than 85% of all local roads across Australia and more than 30% of the all Australian public assets including, bridges, parks, footpaths, drainage and public buildings.

This means that a large proportion of Council’s income must be allocated to the maintenance and replacement of these valuable public assets in order to ensure the quality of public infrastructure is maintained at satisfactory levels.

Council needs to remain financially viable into the future in order to fund the level of service provision and its asset renewal requirements. This was highlighted in the recent Commission of Inquiry into Ararat Rural City Council.

‘The Commission recommends that the Minister recommends to the Mayor of the Council that Council undertake a review of its current range and level of service provision to the community with a view to making structural changes that ensure it can fully fund its asset renewal requirements and remain financially viable over the long term’

THE FUTURE

We have made a conscious effort over the past five years to curb rate increases – an effort which has seen rate increases drop to a third of what they were in 2012/13. A mission that we commenced prior to the introduction of rate capping. This is supported by capital investment policy such as ‘renewal over new’ in an effort to minimise the asset renewal gap.
For every $100 in taxes paid by Victorian residents, only $3.50 is collected through rates by local government. The remaining $96.50 is paid directly to the state and federal governments. Local Government still receives less than 1.0% of the public tax income via Financial Assistance Grants.

Drew and Dollery (2015) established that NSW Councils with rate pegging had worse revenue effort equity, greater debt per capita, lower levels of infrastructure renewal and exhibited much less operational efficiency compared with Victorian local authorities. They concluded that that “our analysis provides little support for rate capping’ and their empirical results ‘support the unintended deleterious effects cited in the international literature on property tax limitations’ (Drew and Dollery, 2015, p.166)

Irrespective of rate capping Mildura Rural City Council will continue to look for savings and organisational efficiencies and opportunities to raise revenue from sources other than rates where we can, to keep rate increases to a minimum in acknowledgement of the lack of capacity for our community to pay and our unique geographic requirements.

BUT this is not going to address our infrastructure renewal gap or enable us to provide monetary contributions to undertake significant projects into the future. A variation to go above the rate cap is not an answer due to the fundamental issues of community capacity to pay.

Capping the Rate does not tackle the infrastructure backlog but neither does acknowledging that extra rates and some infrastructure funding can fix it. Nor can it be fixed by simply having larger councils, or by councils increasing their efficiency, or redistributing the limited supplementary revenue available to councils. Put simply, many current operational and service costs need to be transferred back to the state government and one-off grants be made to make up the backlog.

Australian Bureau of Statistics (ABS) census data indicates 24 per cent of Mildura households make do with less than $650 gross weekly income.
If we accept that one of the fundamental roles of a democratic government is the redistribution of wealth to ensure all citizens have equal access to services and facilities and therefore quality of life, then the change that must be considered is not around rate capping but how local government is funded by other levels of government without cost shifting to local government in the process to provide the services and infrastructure our citizens require.

In summary, MRCC believes rate capping to be an unnecessary, distortionary and inefficient imposition on councils. At a minimum, consideration should be given to the introduction of a Local Government Cost Index [inclusive of the asset renewal gap] as the basis for determining the default rate capping limit and then allow individual adjustments above or below this Index if the Council and local community agreed on the necessity. This would be a significant step forward in terms of transparency and accountability in the absence of abolishing rate capping completely.

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