Submission to the Victorian Legislative Council Environment and Planning Committee Inquiry into Rate Capping.

Buloke Shire Council’s submission needs to be considered within the context of the general environment it operates within.

Small rural shires have major barriers to their capacity to provide basic services to their residents. A number of reports have demonstrated this in the past and small rural shires have responded positively by focusing on improving efficiencies, sharing services, innovative service provision and enhanced management. A great deal of progress has been made, and continues to be made, with many of these shires reaching high levels of efficiency but the problem remains.

The major barriers include communities with a capacity to pay typically half of the capacity of metropolitan communities and inherent costs that are typically three times per unit higher than those of metropolitan municipalities. These costs and lack of capacity arise from a range of factors outside the control of Council including:

- Lack of economies of scale
- Large distances and time required to deliver services.
- More people with lower incomes and other socio-economic factors.
- A higher proportion of aged people in the population.
- Lack of competition from service providers and suppliers.
- Difficulties in the recruitment of staff and skilled contractors.
- Frequent market failure resulting in premium prices for goods and services.
- Small population sizes and a consequent lack of capacity to pay for services.

When these matters are factored in, even with the typically higher grant revenues received by small rural shires, the financial circumstances of Buloke Shire are the worst in the State (Whelan Model, 2013). Many small rural shires are similarly hamstrung in the long term and cannot provide a decent level of services under the current financial arrangements.

Over the years the Shire has seen high levels of rate increase as these issues have continued to be addressed by increased calls on ratepayers to make up for these barriers to financial sustainability. It is doubtful that the previous rate of increase in rates could be sustained by the Shire’s population in any case.

These matters are addressed in this submission. A key matter that needs to be addressed by the Victorian government is the potential for rate capping to introduce yet another cost resulting in a further deterioration of services.

There comes a time when it becomes apparent the residents of these shires have been left with inferior services and poor community outcomes and liveability. The residents of these shires make a considerable contribution to the nation’s GDP, as well as paying rates, income tax and GST in the same manner as their metropolitan colleagues but do not receive the minimum level of services. This is clearly inequitable.

This situation reflects poorly on the Victorian Local Government Sector, as the small rural municipalities created at amalgamation are not financially sustainable under the current funding
models if they are to deliver a reasonable standard of services to their constituents. Under the Local Government Act 1989, local government is a partnership between local, state and federal government. Clearly this partnership is not working.

The terms of reference and actions of the Essential Services Commission so far, infer that generally Councils lack discipline and have not vigorously pursued the efficient delivery of services. In actual fact, small rural shires have been keen advocates of innovation and continuous improvement for decades; principally arising from the discipline necessitated by their heavily disadvantaged financial circumstances and their role as a “price taker” of other levels of government.

Small rural shires have seen levels of funding continuously reduced or withdrawn and have been keen to continually become more efficient and cut their cloth accordingly. Compared to the discipline exerted by these continual reductions in real revenue, the rate cap is unlikely to be able to create any significant further efficiencies that would not have occurred in any case, no matter how well intentioned the rate cap might be.

Local governments are set up as separate entities and provide audited annual accounts as going concerns. They cannot continue to spend more than they receive. The level of rate increases in small rural shires has been too high but even this level of rate increase has not been sufficient to maintain a minimum set of service levels. The pressure of being able to provide these services generates discipline and efficiencies far more effectively than any rate cap will.

There is very little benefit that small rural shires will receive from the operation of a rate cap than would not have occurred in any case. There are, however, significant costs and these will see funds diverted to rate capping processes and a consequent further reduction in services.

Council would also like to have the following matters taken into account:

- The ESC Terms of Reference notes the constrained financial environment for Councils but does not appear to mention three key elements:
  - The loss of the Country Roads and Bridges fund. This was a key flexible funding source for small rural shires equivalent to 10% of the Buloke Shire’s annual rate revenue p.a. In comparison, the freezing of FAGS is equivalent to a loss of 2% of rate revenue p.a.
  - The gradual reduction over time of the proportion of the overall tax take provided to Local Government. Over the past 20 years this has halved. This is a key driver of the need for Council rates to increase.
  - The continued shifting of costs to local government from other levels of government.
- Rate capping will interfere with communities’ decisions in regard to priorities, resource allocation and service delivery. At the current time small rural communities do not receive basic needed services even with rate increases. The imposition of a cap will see further reductions to services.
- Rate capping will involve an extra cost, both for submissions and for the actual ESC mechanism involved. Given the process provides no benefits that do not already occur, this will see a further, unnecessary loss of resources and, therefore of service provision, for the residents of small rural shires.
• The ESC Principles for above cap increases do not, as yet, allow for the provision of basic services that are not currently being provided. This needs to be included, given that many small rural shires cannot currently provide these basic services.

In summary there are much bigger issues for small rural shires than rate capping. The fact is that these shires are not financially sustainable if they are to provide the minimum basic services that should be available to all Victorians whether rate capping exists or not. However, small rural shires certainly do not want to see a further costs arising from such a process and the consequent further erosion of services that might otherwise have been provided.