Mr Keir Delany  
The Secretary  
Environment and Planning Committee  
Legislative Council Parliament House  
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Melbourne VIC 3000  
epc@parliament.vic.gov.au  

28 September 2015

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

Please accept our submission to the Environment and Planning Committee’s Inquiry into Rate Capping. We would also be pleased to present to the Committee.

I write on behalf of the Shires of Bass Coast, Baw Baw, Golden Plains, Macedon Ranges, Moorabool, Murrindindi and Surf Coast who form the Peri Urban Group of Rural Councils. I note the Committee has also received individual submissions from some of our member Councils.

The Councils of the peri urban region are deeply concerned about the potential impact of rate capping on our communities, and our ability to deliver services and infrastructure into the future. We welcome the opportunity to provide comment and to work towards a sustainable approach to rating policy for 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 a crucial role in Victoria's population growth solution, while maintaining 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

The key Challenges of the Peri Urban Shires:

1. Roads funding (maintenance and renewal) accounts for half of the Capital Works budgets of the Peri Urban Councils.
- Our road networks are enormous – our sealed and rural roads stretch 22,000 km, which is sufficient to circumnavigate mainland Australia.
- In contrast, the roads and bridges investment by the Regional Cities accounts for just ¼ of their capital works budgets and 1/3 of the Interface Council’s budgets – see chart below.

2. Per square kilometre, the Interface Councils and Regional Cities can invest at least seven times the funds of the Peri Urban Councils.
   - 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.

3. Peri Urban Councils have smaller budgets. PUGRC 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 – see chart below.

4. PUGRC manages large municipalities – we are four times the size of the Regional Cities.
   - Our Shires contain enormous tracts of un-rateable lands including crown land, water catchments, national parks, forests etc.
   - We have productive agricultural lands. The region contains 10% of Victoria’s productive agricultural lands and yet produces 17% of the primary produce for Victoria.
   - Our region contains 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, snow fields and many picturesque heritage towns.

5. The Councils of our region are already under enormous pressure to deliver the more than 100 services the community expects.

6. Rate capping will affect our ability to fund infrastructure and deliver services.
### Comparison across Peri Urban Councils, Interface Councils and the Regional Cities

<table>
<thead>
<tr>
<th>Council</th>
<th>Total Revenue 2013/14</th>
<th>Investment into Roads</th>
<th>Ave. population growth pa to 2031</th>
<th>2011 population</th>
<th>2031 Forecast population</th>
<th>Total population growth by 2031</th>
<th>Average Capital Works / km²</th>
<th>Council size Km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bass Coast</td>
<td>$68,642,000</td>
<td>$7,944,000</td>
<td>3.07%</td>
<td>30,232</td>
<td>48,831</td>
<td>61.50%</td>
<td>854km²</td>
<td></td>
</tr>
<tr>
<td>Baw Baw</td>
<td>$74,940,000</td>
<td>$12,915,000</td>
<td>3.60%</td>
<td>43,387</td>
<td>74,676</td>
<td>72%</td>
<td>4,028km²</td>
<td></td>
</tr>
<tr>
<td>Golden Plains</td>
<td>$35,952,000</td>
<td>$4,820,000</td>
<td>2.50%</td>
<td>18,958</td>
<td>28,610</td>
<td>50.90%</td>
<td>2,703km²</td>
<td></td>
</tr>
<tr>
<td>Macedon Ranges</td>
<td>$78,407,000</td>
<td>$6,387,000</td>
<td>1.50%</td>
<td>42,860</td>
<td>55,908</td>
<td>30.44%</td>
<td>1,747km²</td>
<td></td>
</tr>
<tr>
<td>Moorabool</td>
<td>$36,034,000</td>
<td>$3,945,000</td>
<td>2.80%</td>
<td>28,664</td>
<td>44,979</td>
<td>56.90%</td>
<td>2,110km²</td>
<td></td>
</tr>
<tr>
<td>Murrindindi</td>
<td>$31,104,000</td>
<td>$4,195,075</td>
<td>1.38%</td>
<td>13,324</td>
<td>17,012</td>
<td>27.68%</td>
<td>3,889km²</td>
<td></td>
</tr>
<tr>
<td>Surf Coast</td>
<td>$66,027,000</td>
<td>$5,524,000</td>
<td>2.60%</td>
<td>26,663</td>
<td>40,565</td>
<td>52.10%</td>
<td>1,553km²</td>
<td></td>
</tr>
<tr>
<td>PUGRC Ave.</td>
<td>$55,872,342</td>
<td>$6,532,982 (1/2 of Cap Ex Budget)</td>
<td>2.5%</td>
<td>29,155</td>
<td>43,368</td>
<td>50.22%</td>
<td>$5,579.00</td>
<td>2,413km²</td>
</tr>
<tr>
<td>Regional Cities* Ave.</td>
<td>$218,183,000</td>
<td>$15,540,333 (1/4 of Cap Ex Budget)</td>
<td>1.95%</td>
<td>141,270</td>
<td>192,333</td>
<td>39%</td>
<td>$35,153 7 x PUGRC</td>
<td>1,662km²</td>
</tr>
<tr>
<td>Interface Councils Ave.</td>
<td>$167,351,045</td>
<td>$11,587,216 (1/3 of Cap Ex Budget)</td>
<td>4%</td>
<td>143,750</td>
<td>234,860</td>
<td>79.73%</td>
<td>$42,178 8 x PUGRC</td>
<td>1,024km²</td>
</tr>
</tbody>
</table>

*Regional Cities of Ballarat, Bendigo and Geelong. Source: ID Forecast and Census 2011.

### Potential Impact of Rate Capping on the Peri Urban Region

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 $1.7 million per Council. Calculation based on:

- $168,460,456 Total rates base (11/12)
- Ave growth of 2.2%
- 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 from rate cap
WHAT ARE THE RELEVANT ISSUES TO CONSIDER?

1. What are legitimate factors for a variation?

**PUGRC Response:** The PUGRC believes the categories to be used as the basis for an application for a variation to the rate cap which include: population growth; decreases in government grants; increased statutory responsibilities; extraordinary circumstances; decreases in other sources of income; and other, should be broadened to be applicable to a wide range of Councils. We suggest that additional categories should be added including:

- Natural disaster.
- Community wellbeing – for smaller communities requiring infrastructure and support services.
- Population decline.
- Significant economic downturn – where a significant local employer has closed down and investment is required to stimulate the town’s economy.

THE FORM OF THE CAP

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

**PUGRC response:** 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.

The impact of the State Government in setting fees and charges on behalf of Local Government is pertinent to this issue. Planning fees and fines have not been reviewed in almost a decade and have not been subject to indexation in that time. These fees and charges are already placing significant pressure on Council budgets.

3. 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?

**PUGRC response:** 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 may 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.
4. Should a single cap apply equally to all councils?

**PUGRC response:** No. Smaller Councils and those Councils with large growth pressures and small budgets should be subject to a higher than CPI cap unless they choose to apply for an alternative level of rates above this level. The Peri Urban Councils are managing significant population growth, infrastructure deficits and limited capacity to borrow, in contrast to many of the larger councils which have large well established rate bases and significant capacity to borrow. The Peri Urban Councils require support and additional funding to deliver the new communities required for Victoria’s increasing population and to protect vital food production areas for the future of this state. Clearly our Councils require a higher rate cap.

**THE VARIATION PROCESS**

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

**PUGRC response:** The ESC has flagged their intention to require Councils to demonstrate efficiencies in their organisation structure, delivery of services to prioritise the top community requirements, rates and charges and consideration and appropriate use of borrowings.

This requirement to show efficiencies assumes that Councils have not already pursued efficiencies and lean operating models where possible. Many Councils are already operating in a manner which will make the ongoing delivery and demonstration of additional efficiencies extremely difficult.

The Peri Urban Councils have been streamlining services and their organisation structures over the last few years and will struggle to continue to new significant deliver changes without large cuts to services and staffing levels. For this reason, the demonstration of efficiencies must be retrospective in nature to enable Councils to rely upon the efficiencies in structure and changes to services implemented over the years immediately prior to the introduction of the rates cap. It may be appropriate to limit this to within 6 years to cover a full Council term and some additional time.

The Government’s and ESC’s preference for greater levels of borrowings by Councils prior to requesting a rate variation is noted. The option for State Government guidance on the appropriate use of debt, to be provided to Councils is a sensible approach.

However, the provision of this advice on debt will not, in our opinion, address the fundamental issue with using debt, which is community perception. Communities do not generally respond well to proposals requiring borrowing to fund Council projects. The increased use of debt will be seen by some communities as a burden to future generations.
TRANSITIONAL ARRANGEMENTS

6. 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?

**PUGRC response:** A two year period of implementation would deliver the best results for all. 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.

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

**PUGRC response:** Yes.

8. How should the costs of administering an ongoing framework be recovered?

**PUGRC response:** As noted in the ESC’s Report, the NSW Government funds the entirety of their rate capping program and compliance for that State. Councils across Victoria are already subject to ever increasing contributions to projects delivered on behalf of the Victorian Government or in partnership. A contribution to the costs of the rate capping program will be yet more funds that need to be raised through efficiencies and terminated services. It is would be more funds that are not being directed into the community.

It is important to note that Local Government is already carrying the burden of many State Government initiatives and programs and these have increased substantially over time. Examples of programs where the burden is being shifted to Local Government include:

- **Fire Services Levy** – since 29012/13 the levy has appeared on rates notices and comprises a fixed charge and a levy rate calculated against the Capital Improved Value of the property.
- **Indexation For Maternal And Child Health** - funding is indexed at 2.5%. The rate of indexation is not in line with CPI and wages increases, placing further pressure on Council to supplement the delivery of Maternal and Child Health services rather than focusing on funding additional hours of service.
- **2% Cap On Indexation For Aged & Disability Services** - came into effect in 12/13 financial year. The cap does has not always kept in line with CPI and wages increases, placing further pressure on Council to supplement the delivery of Aged and Disability services rather than focusing on funding additional hours of service.
- **Emergency Management**
- **Roadside weeds**
- **Cap on Planning Fee Increases** – no indexation since 2006. The lack of fee increase since 2006 has generated an approximate shortfall of $4.6 million (based on 42 councils responding to an MAV survey).
• Library Subsidy - in the 1970s, Victorian libraries were funded 50/50 by State and local government. In the past three years alone, the State’s recurrent operational grant contribution for libraries declined from 20.1% to 19.2% total budget for libraries, while local government’s recurrent contribution grew from 72% to 74.7%.
  o It is important to note that there was a cumulative shortfall in recurrent operational library funding from the State Government which occurred over the period 2001-02 to 2009-10. That shortfall was due to a lack of indexation which amounted to $23.3 million across the state. This cost has been borne by local government.
• Grants Commission Freeze - funding available for distribution to local governments across Australia is frozen at 2013-14 levels until 2017-18.
• School Crossing Subsidy
• National Heavy Vehicle Register - the implementation of the National Heavy Vehicle Register Legislation (NHVR) began in 2014. Prior to this there was no statutory duty for Council to deal with “request for oversize or over mass” applications. The new process has increased the number of heavy vehicle route applications and required Council to have a duty to assess applications within a statutory time frame.
• EPA Levy - for over a decade Councils have been collecting the EPA Levy on behalf of the State Government. In the past few years the levy has increased steeply, and the state has expressed its intent to continue to use the levy as a price signal to drive greater levels of recycling.

The Peri Urban Councils face unique the challenges of managing rapid urban style population growth and contrasting rural issues related to small town decline, protection of farm land and agricultural industries. These Shires are facing a wave of new residents escaping the growth areas in search of a better lifestyle and more affordable housing opportunities. Without adequate support and some flexibility to set rates at appropriate levels, these Peri Urban areas and communities will ultimately suffer through lack of basic infrastructure and services.

As we indicated, we would appreciate the opportunity to present to the Committee. Our Executive Officer, Paula Lawrence would be pleased to facilitate this and can be contacted on [redacted] or via [redacted]

Yours sincerely

Cr Murray Cook, (Baw Baw Shire Council)
Chair, Peri Urban Group of Rural Councils