

Submission to the Parliamentary

Inquiry into Rural and Regional

Councils

**September 2016**

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Parliamentary Inquiry into Rural and Regional Councils has been prepared by the MAV for discussion with member councils and the State Government on the financial challenges facing rural and regional councils

The MAV is the statutory peak body for local government in Victoria.

While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils.

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# Introduction

The Municipal Association of Victoria (MAV) welcomes the opportunity to provide a submission to the Environment, Natural Resources and Regional Development’s inquiry into the sustainability and operational challenges of rural and regional councils.

The terms of reference for the inquiry are broad and the Association’s submission will be focused on key issues relating to the capacity of these councils to provide effective services to their communities.

The structure of this submission follows the terms of reference, namely it considers the following matters:

1. local government funding and budgetary pressures;
2. fairness, equity and adequacy of rating systems;
3. impact of rate-capping policies;
4. capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure;
5. maintenance of local road and bridge networks; and
6. weed and pest animal control.

The purpose of this submission is to highlight the myriad of structural and operational challenges facing Victoria’s rural and regional councils and their responses. It also seeks to highlight policy settings, regulatory frameworks and other factors that assist or worsen the operational challenges facing these councils.

Given the breadth of potential issues, the MAV has focused on what it believes are the major ongoing difficulties for rural and regional councils. There are many other challenges that face these municipalities and the MAV would welcome the opportunity to expand on any further issue of interest to the Committee, either through supplementary submissions or presentations.

# Local Government Funding and Budgetary Pressures

There is considerable diversity across Victoria’s regional and rural councils. They vary in budget by a factor of more than eighteen times, in population by a factor of more than fifty-nine times and in density by a factor of more than ninety-six times. In fact on some counts regional councils have more in common with metropolitan councils than small rural councils, for example the ability to generate own source incomes from user charges, which tend to be related to critical mass.

The issues around funding and budgetary pressures affecting individual councils tend to have common threads although the areas of emphasis may vary. There are however a number of factors that subject regional and more particularly rural councils to greater financial pressures than many of their metropolitan counterparts. These factors are physical (LGA size, the extent of road assets, climate and geology), demographic (population size, growth and ageing); structural (breadth of the economic base) and administrative (the ability to comply with regulatory requirements and implement reforms and best practice). These factors make regional and rural councils generally more reliant on government grants and therefore highly susceptible to changes in grant outcomes, cost-shifting and measures such as rate-capping.

The major factors impacting council budgets and rate requirements include:

* real reductions in Financial Assistance Grants (FAG)s;
* cost-shifting;
* defined benefits calls; and
* capital renewal requirements.

## Financial Assistance Grants

Commonwealth Financial Assistance Grants (FAGs) are distributed to councils by the VGC in line with prescribed principles. They are comprised of General Revenue (73%) and Local Roads Funding (27%) components and are untied with respect to spending purpose. They are a significant revenue source for most councils accounting for a higher proportion of the recurrent revenues of rural councils than regional councils, which in turn account for a higher proportion than in metropolitan councils.

**Table 1: FAGs as Percentage of Recurrent Revenues by Council Type 2014-15**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FAGs as % Recurrent Revenue** | **Max %** | **Min %** |
|  |  |  |  |
| All Councils | 6.8% | 27.2% | 0.80% |
|  |  |  |  |
| Inner Metro | 2.3% | 4.90% | 0.80% |
| Large Shires | 13.7% | 18.10% | 6.00% |
| Outer Metro | 6.1% | 9.80% | 3.10% |
| Regional Cities | 8.9% | 13.50% | 5.40% |
| Small Shires | 17.1% | 27.20% | 2.70% |
|  |  |  |  |
| Rural & Regional | 12.2% | 27.20% | 2.70% |

FAGs are allocated to councils, as far as practicable, on full horizontal equalisation basis which aims to ensure that each council is able to function, by reasonable effort, at a standard not lower than the average standard of other councils – taking into account the need to provide minimum grants and the specific purpose funding received by councils.

An historical review of allocations shows that overall growth in FAGs more than compensated general price increases in the decade from 2000, however recent below CPI increases (including a nominal decline in 2015-16) are of concern. Any argument that greater recent parsimony could be supported on the basis of a clawback of earlier largesse is bad public policy – previous levels of funding have fed into the decisions of councils with respect to services and asset investment. There should be a reasonable expectation that there be no significant reductions on previous years, particularly given the FAGs quantum is insufficient to equalise council expenditures.

**Table 2: FAGs Total Allocations and Changes**

|  | **Total GPG ($m)** | **Total LRF ($m)** | **Total FAGs ($m)** | **% Change** | **GPG per Head ($)** | **% Change** | **LRF Per Km ($)** | **% Change** | **FAGs per Head ($)** | **% Change** | **CPI** | **60% CPI/40% WPI** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **All Councils** |  |  |  |  |  |  |  |  |  |  |  |  |
| 2000 | 217.9 | 80.1 | 298.0 |  | 46.0 |  | 631.3 |  | 62.9 |  |  |  |
| 2001 | 227.6 | 83.8 | 311.4 | 4.51% | 47.7 | 3.64% | 658.7 | 4.35% | 65.3 | 3.66% | 3.71% | 3.55% |
| 2002 | 238.4 | 87.6 | 326.0 | 4.67% | 49.3 | 3.41% | 684.1 | 3.86% | 67.4 | 3.36% | 2.89% | 3.18% |
| 2003 | 250.6 | 93.0 | 343.6 | 5.42% | 51.5 | 4.37% | 723.4 | 5.74% | 70.6 | 4.67% | 3.21% | 3.32% |
| 2004 | 259.9 | 96.0 | 355.9 | 3.57% | 53.1 | 3.06% | 744.4 | 2.90% | 72.6 | 2.90% | 2.33% | 2.69% |
| 2005 | 263.2 | 97.6 | 360.8 | 1.38% | 53.1 | 0.09% | 757.5 | 1.76% | 72.8 | 0.20% | 1.90% | 2.73% |
| 2006 | 278.0 | 102.9 | 380.9 | 5.56% | 55.3 | 4.19% | 801.7 | 5.83% | 75.8 | 4.16% | 3.11% | 3.35% |
| 2007 | 288.2 | 106.8 | 395.0 | 3.71% | 56.4 | 2.00% | 832.0 | 3.79% | 77.4 | 2.04% | 2.65% | 3.02% |
| 2008 | 303.5 | 111.9 | 415.4 | 5.16% | 58.3 | 3.34% | 869.8 | 4.55% | 79.8 | 3.18% | 3.52% | 3.67% |
| 2009 | 324.4 | 119.8 | 444.3 | 6.95% | 61.1 | 4.70% | 929.4 | 6.85% | 83.6 | 4.76% | 2.83% | 3.28% |
| 2010 | 330.2 | 121.8 | 452.1 | 1.76% | 61.0 | -0.13% | 944.5 | 1.61% | 83.5 | -0.17% | 2.09% | 2.38% |
| 2011 | 357.7 | 132.0 | 489.6 | 8.31% | 65.0 | 6.67% | 1,022.5 | 8.26% | 89.0 | 6.68% | 3.24% | 3.46% |
| 2012 | 370.4 | 136.4 | 506.8 | 3.51% | 66.3 | 1.98% | 1,046.7 | 2.37% | 90.8 | 1.92% | 2.30% | 2.77% |
| 2013 | 376.9 | 138.9 | 515.8 | 1.77% | 66.3 | 0.00% | 1,060.6 | 1.33% | 90.8 | 0.02% | 2.15% | 2.59% |
| 2014 | 391.0 | 144.2 | 535.2 | 3.76% | 67.6 | 1.88% | 1,104.5 | 4.14% | 92.5 | 1.91% | 2.80% | 2.77% |
| 2015 | 395.9 | 145.8 | 541.7 | 1.22% | 67.2 | -0.49% | 1,114.7 | 0.93% | 92.0 | -0.53% | 1.46% | 1.97% |
| 2016 | 394.3 | 145.0 | 539.4 | -0.44% | 65.8 | -2.12% | 1,108.4 | -0.56% | 90.0 | -2.16% | 1.54% | 1.85% |
| 2000-2016 |  |  |  | 3.78% |  | 2.26% |  | 3.58% |  | 2.26% | 2.61% | 2.91% |
| 2011-2016 |  |  |  | 1.95% |  | 0.24% |  | 1.63% |  | 0.22% | 2.05% | 2.39% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Regional & Rural Councils** |  |  |  |  |  |  |  |  |  |  |  |  |
| 2000 | 108.2 | 54.8 | 163.0 |  | 81.4 |  | 510.1 |  | 122.7 |  |  |  |
| 2001 | 113.4 | 57.1 | 170.6 | 4.63% | 85.8 | 5.39% | 530.3 | 3.95% | 129.1 | 5.20% | 3.71% | 3.55% |
| 2002 | 120.7 | 62.9 | 183.6 | 7.64% | 90.7 | 5.61% | 581.1 | 9.59% | 137.9 | 6.81% | 2.89% | 3.18% |
| 2003 | 129.3 | 69.9 | 199.2 | 8.50% | 97.1 | 7.12% | 644.7 | 10.94% | 149.7 | 8.55% | 3.21% | 3.32% |
| 2004 | 135.6 | 73.3 | 208.8 | 4.82% | 101.9 | 4.89% | 676.4 | 4.92% | 156.9 | 4.85% | 2.33% | 2.69% |
| 2005 | 137.7 | 73.9 | 211.6 | 1.33% | 102.9 | 1.02% | 684.4 | 1.18% | 158.2 | 0.79% | 1.90% | 2.73% |
| 2006 | 150.1 | 77.6 | 227.7 | 7.59% | 111.4 | 8.30% | 722.3 | 5.55% | 169.1 | 6.90% | 3.11% | 3.35% |
| 2007 | 159.4 | 80.5 | 240.0 | 5.40% | 117.5 | 5.40% | 750.5 | 3.90% | 176.8 | 4.56% | 2.65% | 3.02% |
| 2008 | 169.1 | 84.1 | 253.2 | 5.53% | 123.4 | 5.05% | 783.2 | 4.36% | 184.7 | 4.51% | 3.52% | 3.67% |
| 2009 | 181.1 | 89.9 | 271.0 | 7.02% | 130.6 | 5.88% | 837.1 | 6.88% | 195.5 | 5.84% | 2.83% | 3.28% |
| 2010 | 186.3 | 91.3 | 277.6 | 2.44% | 132.9 | 1.70% | 851.1 | 1.67% | 198.0 | 1.25% | 2.09% | 2.38% |
| 2011 | 202.8 | 98.5 | 301.3 | 8.52% | 143.0 | 7.66% | 919.1 | 7.99% | 212.5 | 7.33% | 3.24% | 3.46% |
| 2012 | 208.7 | 101.8 | 310.4 | 3.04% | 145.7 | 1.88% | 945.1 | 2.84% | 216.8 | 2.03% | 2.30% | 2.77% |
| 2013 | 212.1 | 103.5 | 315.6 | 1.65% | 146.8 | 0.76% | 958.7 | 1.43% | 218.4 | 0.76% | 2.15% | 2.59% |
| 2014 | 218.1 | 107.5 | 325.6 | 3.19% | 149.7 | 1.97% | 1,001.5 | 4.47% | 223.6 | 2.34% | 2.80% | 2.77% |
| 2015 | 221.4 | 108.9 | 330.3 | 1.43% | 150.9 | 0.79% | 1,012.9 | 1.14% | 225.1 | 0.69% | 1.46% | 1.97% |
| 2016 | 221.4 | 108.1 | 329.5 | -0.25% | 149.7 | -0.77% | 1,005.8 | -0.70% | 222.9 | -0.99% | 1.54% | 1.85% |
| 2000-2016 |  |  |  | 4.50% |  | 3.88% |  | 4.33% |  | 3.80% | 2.61% | 2.91% |
| 2011-2016 |  |  |  | 1.80% |  | 0.92% |  | 1.82% |  | 0.96% | 2.05% | 2.39% |

The following observations are relevant with respect to FAGs:

* quantum funding is well short of the amount which would allow full equalisation across all councils;
* there has been a shift in funding shares from metropolitan councils and the majority of regional councils to rural councils;
* there has been a real decline in FAGs over time; and
* there is considerable variation in the year on year allocations to individual councils.

The share of total Victorian FAGs distributed to rural and regional councils increased from 55 per cent to 61 per cent between 1999-00 and 2015-16.

**Table 3: FAGs Breakdown by Broad Council Type – Selected Years**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **1999-00** | | |  | **2014-15** | | |  | **2015-16 (est)** | | |
|  | **GPGs** | **LRGs** | **FAGs** |  | **GPGs** | **LRGs** | **FAGs** |  | **GPGs** | **LRGs** | **FAGs** |
| $m | 108.2 | 54.8 | 163.0 |  | 221.4 | 108.9 | 330.3 |  | 221.6 | 108.1 | 329.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Inner Metro | 24% | 14% | 21% |  | 14% | 9% | 12% |  | 13% | 9% | 12% |
| Large Shires | 17% | 29% | 20% |  | 20% | 32% | 23% |  | 20% | 32% | 23% |
| Outer Metro | 26% | 18% | 24% |  | 30% | 16% | 27% |  | 30% | 16% | 27% |
| Regional Cities | 21% | 20% | 21% |  | 21% | 18% | 20% |  | 21% | 18% | 20% |
| Small Shires | 11% | 20% | 13% |  | 15% | 25% | 18% |  | 15% | 25% | 18% |
| All | 100% | 100% | 100% |  | 100% | 100% | 100% |  | 100% | 100% | 100% |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Rural & Regional | 50% | 68% | 55% |  | 56% | 75% | 61% |  | 56% | 75% | 61% |

FAGs have declined in real terms when discounted for cost/inflationary increases. Analysis of data from 1999-00 to 2015-16 that discounts for movements in the CPI and 60 per cent CPI/40 per cent Wages Price Index (which is the ESC recommended basis for current rate capping in their final report to the State) indicates that FAGs per head have fallen from levels recorded in earlier years. When discounted for CPI, FAGs per head for rural and regional councils fell from a high of $155.80 in 2010-11 to $147.7 in 2015-16. When discounted for combined CP/WP index they fell from a high of $144.40 in 2010-11 to $131.30 in 2015-16.

**Figure 1**

More detailed analysis shows that while real FAGs per head for rural and regional councils have increased generally, the effect has been driven largely by the outcome for large and small shires with real declines being recorded by regional councils.

Historic MAV work has shown that sector costs have more closely paralleled movements in average weekly earnings. Hence the findings of real loss based on CPI and CPI/WPI composite may be considered conservative.

**Table 4: Nominal & Real FAGs per Head by Broad Council Type – Selected Years ($ Year 2000)**

|  | **2000** | **2001** | **2003** | **2011** | **2015** | **2016** |
| --- | --- | --- | --- | --- | --- | --- |
| **All Councils** |  |  |  |  |  |  |
| Nominal | 62.9 | 65.3 | 70.6 | 89.0 | 92.0 | 90.1 |
| Discounted by CPI | 62.9 | 62.9 | 64.1 | 65.3 | 61.9 | 59.7 |
| Discounted by AWE | 62.9 | 62.9 | 59.1 | 53.8 | 49.7 | 47.2 |
| Discounted by 60% CPI/40% WPI | 62.9 | 63.2 | 63.7 | 60.5 | 55.5 | 53.1 |
|  |  |  |  |  |  |  |
| **Regional City** |  |  |  |  |  |  |
| Nominal | 93.9 | 97.4 | 100.8 | 137.0 | 143.3 | 141.4 |
| Discounted by CPI | 93.9 | 93.9 | 91.5 | 100.4 | 96.4 | 93.6 |
| Discounted by AWE | 93.9 | 93.9 | 84.3 | 82.8 | 77.4 | 74.0 |
| Discounted by 60% CPI/40% WPI | 93.9 | 94.3 | 91.0 | 93.1 | 86.4 | 83.2 |
|  |  |  |  |  |  |  |
| **Large Shires** |  |  |  |  |  |  |
| Nominal | 139.0 | 150.2 | 191.8 | 251.6 | 266.2 | 265.3 |
| Discounted by CPI | 139.0 | 144.8 | 174.2 | 184.5 | 179.1 | 175.8 |
| Discounted by AWE | 139.0 | 144.7 | 160.6 | 152.2 | 143.7 | 139.0 |
| Discounted by 60% CPI/40% WPI | 139.0 | 145.4 | 173.2 | 171.0 | 160.4 | 156.3 |
|  |  |  |  |  |  |  |
| **Small Shires** |  |  |  |  |  |  |
| Nominal | 173.5 | 181.5 | 215.0 | 371.2 | 407.3 | 404.0 |
| Discounted by CPI | 173.5 | 175.0 | 195.2 | 272.2 | 274.0 | 267.7 |
| Discounted by AWE | 173.5 | 174.9 | 180.0 | 224.4 | 219.9 | 211.6 |
| Discounted by 60% CPI/40% WPI | 173.5 | 175.6 | 194.1 | 252.2 | 245.4 | 237.9 |
|  |  |  |  |  |  |  |
| **Rural & Regional** |  |  |  |  |  |  |
| Nominal | 122.7 | 129.1 | 149.7 | 212.5 | 225.1 | 222.9 |
| Discounted by CPI | 122.7 | 124.5 | 135.9 | 155.8 | 151.4 | 147.7 |
| Discounted by AWE | 122.7 | 124.4 | 125.3 | 128.5 | 121.5 | 116.7 |
| Discounted by 60% CPI/40% WPI | 122.7 | 124.9 | 135.1 | 144.4 | 135.7 | 131.3 |

The data show that real increases in FAGs per head have occurred in a majority of rural and regional councils in recent years compared with 1999-00, but regardless of type, only a minority of councils have been spared reductions on amounts they received five years ago. For example, comparisons of real FAGs per head received in 1999-00 versus 2015-16 and 2010-11 versus 2015-16 show respectively reductions in:

* 5% and 50% of small shires;
* 13% and 69% of large shires;
* 45% and 82% of regional city councils; and
* 17% and 64% of rural and regional councils overall.

Examples for individual councils are provided in Table 5. It illustrates the differing real outcomes for “like” councils and real losses occurring regardless of type, the extent depending on the discount factor used.

**Table 5: Real FAGs per Head by Broad Council Type – Selected Years and Councils ($ Year 2000)**

|  | **FAGs per Head** | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2000** | **2001** | **2003** | **2011** | **2015** | **2016** |
|  | **Discounted by CPI** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | 116.9 | 128.3 | 154.5 | 203.9 | 198.9 | 192.1 |
| Bass Coast | 116.6 | 113.1 | 112.1 | 126.8 | 117.9 | 112.4 |
| Buloke | 372.1 | 372.0 | 357.0 | 543.9 | 614.6 | 629.5 |
| Golden Plains | 156.4 | 162.2 | 179.3 | 185.4 | 169.7 | 161.7 |
| Indigo | 132.9 | 145.6 | 154.0 | 195.4 | 193.2 | 184.8 |
| Loddon | 358.9 | 358.5 | 438.0 | 646.5 | 713.6 | 721.1 |
| Northern Grampians | 220.1 | 227.6 | 247.9 | 354.0 | 380.1 | 383.2 |
| Yarriambiack | 276.6 | 277.6 | 295.8 | 435.2 | 474.2 | 470.6 |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | 133.9 | 127.4 | 164.8 | 195.3 | 207.3 | 201.3 |
| Corangamite | 168.3 | 161.7 | 222.6 | 288.6 | 300.6 | 300.2 |
| Mitchell | 119.2 | 121.2 | 122.6 | 123.8 | 111.4 | 109.7 |
| Moira | 150.7 | 150.8 | 177.6 | 215.5 | 227.5 | 223.7 |
| Moorabool | 114.2 | 124.1 | 134.2 | 137.8 | 124.2 | 121.0 |
| Murrindindi | 132.6 | 127.2 | 161.4 | 230.7 | 213.8 | 205.5 |
| South Gippsland | 165.8 | 155.3 | 216.4 | 206.2 | 207.9 | 212.5 |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | 98.7 | 98.1 | 90.8 | 101.2 | 93.9 | 90.7 |
| Greater Geelong | 65.7 | 64.6 | 63.4 | 63.9 | 57.6 | 55.0 |
| Greater Shepparton | 102.9 | 105.4 | 105.7 | 118.0 | 122.7 | 119.3 |
| Mildura | 121.0 | 130.0 | 137.4 | 162.5 | 168.4 | 167.5 |
| Warrnambool | 78.3 | 77.3 | 75.1 | 77.5 | 71.4 | 68.8 |
|  |  |  |  |  |  |  |
|  | **Discounted by 60% CPI/40% WPI** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | 116.9 | 128.8 | 153.7 | 189.0 | 178.1 | 170.7 |
| Bass Coast | 116.6 | 113.6 | 111.5 | 117.5 | 105.6 | 99.9 |
| Buloke | 372.1 | 373.5 | 355.0 | 504.0 | 550.6 | 559.5 |
| Golden Plains | 156.4 | 162.9 | 178.3 | 171.8 | 152.0 | 143.7 |
| Indigo | 132.9 | 146.2 | 153.1 | 181.0 | 173.1 | 164.3 |
| Loddon | 358.9 | 359.9 | 435.5 | 599.1 | 639.2 | 641.0 |
| Northern Grampians | 220.1 | 228.4 | 246.5 | 328.0 | 340.5 | 340.6 |
| Yarriambiack | 276.6 | 278.7 | 294.1 | 403.3 | 424.8 | 418.3 |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | 133.9 | 127.9 | 163.9 | 181.0 | 185.7 | 178.9 |
| Corangamite | 168.3 | 162.3 | 221.3 | 267.4 | 269.2 | 266.8 |
| Mitchell | 119.2 | 121.7 | 121.9 | 114.8 | 99.8 | 97.5 |
| Moira | 150.7 | 151.4 | 176.6 | 199.7 | 203.8 | 198.9 |
| Moorabool | 114.2 | 124.6 | 133.4 | 127.7 | 111.3 | 107.6 |
| Murrindindi | 132.6 | 127.6 | 160.5 | 213.8 | 191.6 | 182.7 |
| South Gippsland | 165.8 | 155.9 | 215.1 | 191.1 | 186.3 | 188.9 |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | 98.7 | 98.4 | 90.3 | 93.8 | 84.1 | 80.6 |
| Greater Geelong | 65.7 | 64.8 | 63.1 | 59.2 | 51.6 | 48.8 |
| Greater Shepparton | 102.9 | 105.8 | 105.1 | 109.3 | 109.9 | 106.1 |
| Mildura | 121.0 | 130.5 | 136.6 | 150.6 | 150.8 | 148.9 |
| Warrnambool | 78.3 | 77.6 | 74.7 | 71.8 | 63.9 | 61.2 |
|  |  |  |  |  |  |  |
|  | **Discounted by AWE** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | 116.9 | 128.2 | 142.5 | 168.2 | 159.6 | 151.8 |
| Bass Coast | 116.6 | 113.1 | 103.4 | 104.6 | 94.6 | 88.8 |
| Buloke | 372.1 | 371.9 | 329.1 | 448.5 | 493.2 | 497.5 |
| Golden Plains | 156.4 | 162.2 | 165.3 | 152.9 | 136.1 | 127.8 |
| Indigo | 132.9 | 145.5 | 141.9 | 161.1 | 155.1 | 146.1 |
| Loddon | 358.9 | 358.4 | 403.8 | 533.1 | 572.6 | 569.9 |
| Northern Grampians | 220.1 | 227.5 | 228.5 | 291.9 | 305.0 | 302.9 |
| Yarriambiack | 276.6 | 277.5 | 272.7 | 358.9 | 380.5 | 372.0 |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | 133.9 | 127.4 | 152.0 | 161.0 | 166.4 | 159.1 |
| Corangamite | 168.3 | 161.6 | 205.2 | 238.0 | 241.2 | 237.3 |
| Mitchell | 119.2 | 121.2 | 113.0 | 102.1 | 89.4 | 86.7 |
| Moira | 150.7 | 150.7 | 163.7 | 177.7 | 182.5 | 176.8 |
| Moorabool | 114.2 | 124.1 | 123.7 | 113.6 | 99.7 | 95.7 |
| Murrindindi | 132.6 | 127.1 | 148.8 | 190.3 | 171.6 | 162.4 |
| South Gippsland | 165.8 | 155.2 | 199.5 | 170.1 | 166.8 | 168.0 |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | 98.7 | 98.0 | 83.7 | 83.5 | 75.3 | 71.7 |
| Greater Geelong | 65.7 | 64.6 | 58.5 | 52.7 | 46.2 | 43.4 |
| Greater Shepparton | 102.9 | 105.4 | 97.4 | 97.3 | 98.4 | 94.3 |
| Mildura | 121.0 | 129.9 | 126.6 | 134.0 | 135.1 | 132.4 |
| Warrnambool | 78.3 | 77.2 | 69.2 | 63.9 | 57.3 | 54.4 |

The VGC methodology results in significant year-on-year variations as illustrated in Table 6. Real declines and year on year fluctuations in FAGs are more problematic given the imposition of rate-capping and an inability to offset losses in FAGs by increasing rates.

**Table 6: Change in Real FAGs per Head on Previous Year – Selected Years and Councils**

|  | **FAGs per Head – Real Change on Previous Year** | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2000** | **2001** | **2003** | **2011** | **2015** | **2016** |
|  | **Discounted by CPI** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | -3.5% | 9.8% | 19.2% | 3.5% | -0.6% | -3.4% |
| Bass Coast | 2.2% | -3.0% | 0.2% | 6.3% | -2.5% | -4.6% |
| Buloke | 2.4% | 0.0% | -4.1% | 8.7% | 4.3% | 2.4% |
| Golden Plains | -4.3% | 3.7% | 5.5% | 2.6% | -1.6% | -4.7% |
| Indigo | -1.6% | 9.5% | 5.7% | 4.4% | -1.2% | -4.4% |
| Loddon | 0.7% | -0.1% | 17.0% | 7.0% | 2.5% | 1.1% |
| Northern Grampians | -3.0% | 3.4% | 7.6% | 6.3% | 2.7% | 0.8% |
| Yarriambiack | 3.3% | 0.4% | 2.4% | 6.6% | 2.4% | -0.7% |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | -3.4% | -4.9% | 15.4% | 4.5% | -0.7% | -2.9% |
| Corangamite | -3.2% | -3.9% | 19.0% | 7.7% | 2.9% | -0.1% |
| Mitchell | -4.2% | 1.7% | 1.3% | 0.0% | -1.5% | -1.6% |
| Moira | -5.0% | 0.1% | 2.3% | 6.1% | 0.9% | -1.6% |
| Moorabool | -6.8% | 8.7% | 1.5% | 3.0% | -1.8% | -2.5% |
| Murrindindi | -3.4% | -4.1% | 20.1% | 5.8% | -2.6% | -3.9% |
| South Gippsland | 11.3% | -6.3% | 20.2% | 5.7% | 1.7% | 2.2% |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | -6.3% | -0.6% | -2.5% | 2.6% | -1.8% | -3.4% |
| Greater Geelong | -7.6% | -1.7% | -1.4% | 0.1% | -2.0% | -4.6% |
| Greater Shepparton | -7.3% | 2.4% | 0.0% | 4.9% | 1.0% | -2.7% |
| Mildura | -1.7% | 7.4% | 3.9% | 5.5% | 1.9% | -0.5% |
| Warrnambool | -7.6% | -1.4% | -0.9% | 1.3% | -1.2% | -3.6% |
|  |  |  |  |  |  |  |
|  | **Discounted by 60% CPI/40% WPI** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | -3.6% | 10.2% | 18.8% | 3.0% | -1.8% | -4.2% |
| Bass Coast | 2.0% | -2.6% | -0.1% | 5.8% | -3.7% | -5.4% |
| Buloke | 2.2% | 0.4% | -4.3% | 8.1% | 3.0% | 1.6% |
| Golden Plains | -4.5% | 4.1% | 5.2% | 2.1% | -2.9% | -5.4% |
| Indigo | -1.8% | 9.9% | 5.4% | 3.9% | -2.4% | -5.1% |
| Loddon | 0.5% | 0.3% | 16.7% | 6.5% | 1.2% | 0.3% |
| Northern Grampians | -3.2% | 3.8% | 7.3% | 5.7% | 1.4% | 0.0% |
| Yarriambiack | 3.1% | 0.8% | 2.1% | 6.0% | 1.1% | -1.5% |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | -3.6% | -4.5% | 15.1% | 4.0% | -1.9% | -3.7% |
| Corangamite | -3.4% | -3.6% | 18.7% | 7.1% | 1.6% | -0.9% |
| Mitchell | -4.4% | 2.1% | 1.0% | -0.5% | -2.7% | -2.4% |
| Moira | -5.2% | 0.5% | 2.1% | 5.5% | -0.4% | -2.4% |
| Moorabool | -7.0% | 9.1% | 1.2% | 2.5% | -3.0% | -3.3% |
| Murrindindi | -3.6% | -3.7% | 19.8% | 5.2% | -3.8% | -4.6% |
| South Gippsland | 11.0% | -6.0% | 19.9% | 5.1% | 0.5% | 1.4% |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | -6.5% | -0.2% | -2.7% | 2.0% | -3.0% | -4.2% |
| Greater Geelong | -7.8% | -1.4% | -1.7% | -0.5% | -3.2% | -5.3% |
| Greater Shepparton | -7.4% | 2.8% | -0.2% | 4.3% | -0.3% | -3.5% |
| Mildura | -1.9% | 7.8% | 3.7% | 5.0% | 0.7% | -1.3% |
| Warrnambool | -7.8% | -1.0% | -1.1% | 0.8% | -2.4% | -4.3% |
|  |  |  |  |  |  |  |
|  | **Discounted by AWE** | | | | | |
| **Small Shires** |  |  |  |  |  |  |
| Alpine | -3.2% | 9.7% | 15.3% | 3.3% | 0.0% | -4.9% |
| Bass Coast | 2.4% | -3.0% | -3.0% | 6.1% | -2.0% | -6.1% |
| Buloke | 2.6% | -0.1% | -7.2% | 8.4% | 4.9% | 0.9% |
| Golden Plains | -4.1% | 3.7% | 2.1% | 2.4% | -1.1% | -6.1% |
| Indigo | -1.4% | 9.5% | 2.3% | 4.2% | -0.6% | -5.8% |
| Loddon | 0.9% | -0.1% | 13.2% | 6.8% | 3.1% | -0.5% |
| Northern Grampians | -2.8% | 3.3% | 4.1% | 6.1% | 3.3% | -0.7% |
| Yarriambiack | 3.5% | 0.3% | -0.9% | 6.4% | 3.0% | -2.2% |
| **Large Shires** |  |  |  |  |  |  |
| Campaspe | -3.2% | -4.9% | 11.7% | 4.3% | -0.1% | -4.4% |
| Corangamite | -3.0% | -4.0% | 15.2% | 7.5% | 3.5% | -1.6% |
| Mitchell | -4.0% | 1.7% | -2.0% | -0.2% | -0.9% | -3.1% |
| Moira | -4.8% | 0.0% | -0.9% | 5.8% | 1.5% | -3.1% |
| Moorabool | -6.6% | 8.7% | -1.8% | 2.8% | -1.2% | -4.0% |
| Murrindindi | -3.2% | -4.1% | 16.3% | 5.5% | -2.1% | -5.3% |
| South Gippsland | 11.5% | -6.4% | 16.3% | 5.4% | 2.3% | 0.7% |
| **Regional Cities** |  |  |  |  |  |  |
| Greater Bendigo | -6.1% | -0.6% | -5.6% | 2.4% | -1.2% | -4.9% |
| Greater Geelong | -7.4% | -1.8% | -4.6% | -0.2% | -1.4% | -6.0% |
| Greater Shepparton | -7.1% | 2.4% | -3.2% | 4.7% | 1.6% | -4.2% |
| Mildura | -1.5% | 7.3% | 0.6% | 5.3% | 2.5% | -2.0% |
| Warrnambool | -7.4% | -1.4% | -4.0% | 1.1% | -0.6% | -5.0% |

It is interesting to look at differences in total FAGs received compared with what they would have been were actual receipts indexed by CPI over the past five years and it highlights the differing experience of rural and regional councils.

**Table 7: Difference in Actual and Real FAGs Allocations – 2012 to 2016**

|  | | **Total FAGs- Nominal FAGs per Head less CP Indexed FAGs per Head (Base 2011)** | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **2012** | | **2013** | | **2014** | | **2015** | | **2016** | **5 Year Difference ($ 2016)** |
| **Small Shires** |  | |  | |  | |  | |  | |  |
| Alpine | 13,358 | | -69,138 | | -68,886 | | -89,878 | | -212,202 | | -433,195 |
| Bass Coast | 133,378 | | -84,938 | | -271,062 | | -424,327 | | -704,620 | | -1,360,373 |
| Buloke | 93,595 | | 165,857 | | 409,675 | | 632,589 | | 760,511 | | 2,101,757 |
| Golden Plains | -102,351 | | -180,687 | | -383,448 | | -482,899 | | -751,924 | | -1,939,341 |
| Indigo | -16,919 | | 2,379 | | 2,759 | | -48,828 | | -245,738 | | -308,256 |
| Loddon | 38,383 | | 119,588 | | 535,832 | | 729,252 | | 815,738 | | 2,276,368 |
| Northern Grampians | -15,809 | | 56,428 | | 279,556 | | 450,875 | | 506,653 | | 1,295,104 |
| Yarriambiack | 125,042 | | 112,129 | | 283,876 | | 394,641 | | 357,379 | | 1,304,546 |
|  |  | |  | |  | |  | |  | |  |
| **Large Shires** |  | |  | |  | |  | |  | |  |
| Campaspe | 705,330 | | 543,557 | | 732,311 | | 659,915 | | 331,402 | | 3,094,549 |
| Corangamite | 106,052 | | 98,594 | | 81,513 | | 281,086 | | 272,948 | | 861,468 |
| Mitchell | -84,617 | | -364,232 | | -595,740 | | -714,761 | | -849,223 | | -2,665,964 |
| Moira | -180,481 | | 23,096 | | 419,571 | | 513,176 | | 359,329 | | 1,141,837 |
| Moorabool | -5,639 | | -279,621 | | -506,601 | | -630,246 | | -803,506 | | -2,267,557 |
| Murrindindi | 40,681 | | -14,871 | | -219,883 | | -342,576 | | -523,624 | | -1,069,721 |
| South Gippsland | -91,112 | | -261,760 | | -73,368 | | 70,305 | | 263,483 | | -116,499 |
|  |  | |  | |  | |  | |  | |  |
| **Regional Cities** |  | |  | |  | |  | |  | |  |
| Greater Bendigo | -292,606 | | -720,471 | | -886,087 | | -1,180,485 | | -1,744,248 | | -4,935,254 |
| Greater Geelong | -283,555 | | -930,494 | | -1,682,386 | | -2,126,474 | | -3,114,390 | | -8,298,884 |
| Greater Shepparton | 66,241 | | 134,523 | | 319,556 | | 439,372 | | 128,658 | | 1,118,105 |
| Mildura | 60,959 | | 39,886 | | 206,168 | | 460,546 | | 400,958 | | 1,189,155 |
| Warrnambool | -58,263 | | -127,159 | | -258,324 | | -306,003 | | -441,960 | | -1,216,481 |
|  |  | |  | |  | |  | |  | |  |
| Inner Metro | -758,119 | | -2,213,165 | | -2,259,249 | | -4,183,101 | | -7,541,296 | | -17,280,078 |
| Large Shires | 721,423 | | -590,790 | | -976,000 | | -2,136,930 | | -4,152,711 | | -7,173,161 |
| Outer Metro | 249,122 | | -3,241,598 | | -4,557,420 | | -8,965,980 | | -15,905,755 | | -32,867,939 |
| Regional Cities | -872,347 | | -2,178,596 | | -3,051,710 | | -3,754,354 | | -6,799,688 | | -17,006,482 |
| Small Shires | 679,632 | | 250,238 | | 1,463,970 | | 2,359,486 | | 563,130 | | 5,467,249 |
| All Councils | 19,712 | | -7,973,911 | | -9,380,409 | | -16,680,880 | | -33,836,320 | | -68,860,411 |
|  |  | |  | |  | |  | |  | |  |
| Rural & Regional | 498,228 | | -2,515,853 | | -2,558,790 | | -3,525,824 | | -10,376,731 | | -18,718,176 |

Outcomes for rural and regional councils have been variable because funding has not reflected CPI escalation let alone councils’ cost increases and the FAGs funding model is redistributive.

**3.2 Specific Purpose Programs & Cost Shifting**

Cost-shifting occurs when one government underpays for a service resulting in another government overpaying for a service. It has occurred over a wide range of services delivered by local government and has been a reason for council rate increases to be substantially higher than would otherwise be the case. It is not possible to comment conclusively and accurately on the actual levels of cost shifting that have occurred across the full gamut of services that councils provide on behalf of, or with the financial assistance of State Government or where the State has control over the levying of fees and charges. This would require forensic analysis at individual council level and an accurate determination of the real costs of service provision and levels of support for each service in each council.

Over time it has become clear that the experience of councils varies considerably with respect to levels of specific purpose grant/output funding despite formulaic approaches for these services. This is because targets are not being met, funding approaches are inherently flawed and there are questions regarding the accuracy of councils’ cost data. The MAV has normally erred on side of conservatism and restricted its definition of cost-shift to the provision of units of service nominally purchased, or for which grants have been provided by other Government, rather than the provision of volumes exceeding these which are provided over and above by councils in order to service unmet demand and the costs of adhering to increased State imposed regulation. The cost of State “red tape” has increased dramatically over recent years as more and more reporting requirements have been imposed on the sector and this can also be added to the mix of the factors.

There is evidence that “marginal attrition” rather than significant annual reductions have affected the funding of services over a long period of time .In other words, the contribution of the annual cost-shift in these services to annual rate increases is quite small – the damage being not so much done by the indexation, as the starting level and cumulative marginal shortcomings in escalation.

Notwithstanding the above, it is possible to review the respective funding rates and costs in some cases. The MAV has limited data on individual councils’ costs for M&CH, HACC and Libraries, the first two from MAV surveys and the later form the Annual Survey of Public Libraries.

### Maternal & Child Health

An historic deal has existed between the State Government and the sector under which an agreed cost per effective nurse hour for universal M&CH services would be shared 50/50 and funding for enhanced M&CH services would be borne 100 per cent by the State.

The MAV’s latest detailed survey of M&CH costs for 2013-14 found:

* a reasonable cost per effective nurse hour above the DEECD purchase price of funding of $91.56;
* significant variation within council type but generally higher unit costs exhibited by more urbanized councils and lower unit costs by councils that were more rural;
* a number of councils investing more hours in Universal and Enhanced Services than provided by DEECD targets and a significant number also providing varying levels of Additional service; and
* in many cases councils providing a significant proportion of the cost of combined Universal and Enhanced Service target hours although being responsible only for matching DEECD.

The State price continues to be deficient when compared with the sector’s delivery costs despite significant catch-up being made in State funding. While over the past four years this equates to an average annual increase of 5.2% and over the last five years 5.8%, and on face value these increases look quite large, they need to be seen in context – between 2013-14 and 2015-16 the average annual increase in funding rate was just under 2%.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 9: State Price versus Estimated Reasonable Unit Cost** | | | | |
|  | **Unit Price Paid** | | |
| **Year** | **Rate** | **Annual Increase** | **Cumulative to 2016-17** |
| 2011-12 | $83.01 |  | 32.5% |
| 2012-13 | $89.76 | 8.13% | 22.5% |
| 2013-14 | $91.56 | 2.01% | 20.1% |
| 2014-15 | $93.39 | 2.00% | 17.8% |
| 2015-16 | $95.25 | 1.99% | 15.5% |
| 2016-17 | $110.00 | 15.49% |  |

State funding rate for M&CH has not been even-paced, and historically where it has not paralleled the Treasury line of 2%-2.5% less productivity saving, has moved jerkily and pragmatically in order to achieve some level of catch-up. In effect, the MAV has generally achieved a reasonable negotiated funding outcome at the time of Memorandum of Understanding is entered into, with a funding shortfall opening up due to inadequate indexation in the out years of the agreement.

### Public Libraries

The data show that if discounted for movements in the CPI there were considerable fluctuations in real public library grants per head over the past decade or so to 2014-15.Overall there has been no substantial real growth in per head recurrent library funding although some growth has occurred in real capital[[1]](#footnote-2) funding. To the extent that capex is used for new assets, and upgrading or expanding existing assets, the latter adds to councils’ asset renewal costs.

Real recurrent library grants per head peaked in 2007-08 for all services including rural and regional library services. Compared with levels recorded in 2002-03, funding rates in 2014-15 were slightly lower overall but marginally higher for rural and regional services.

**Figure 2**

The data show the main issue with respect to library funding is that, notwithstanding annual swings in real funding, that recurrent library grants have fallen as a proportion of recurrent library outlays – from 18.2 per cent to 16.6 per cent for all library services and even more for rural and regional services, from 26 per cent to 20.6 per cent, when comparing 2002-03 and 2014-15.

**Table 10: Real Public Library Grants & Expenses per Head - Selected Years ($ 2003)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2003** | **2006** | **2008** | **2010** | **2012** | **2014** | **2015** |
| Total Grants per Head - All | $5.0 | $5.5 | $5.9 | $5.3 | $6.8 | $5.4 | $5.2 |
| Total Grants per Head - R & R | $5.9 | $6.5 | $7.3 | $6.0 | $7.1 | $5.9 | $6.4 |
| Recurrent Grants per Head All | $4.9 | $4.9 | $5.1 | $4.7 | $4.7 | $4.8 | $4.8 |
| Recurrent Grants per Head R & R | $5.6 | $5.3 | $6.1 | $5.4 | $5.5 | $5.6 | $5.8 |
| Total Expenses per Head - All | $30.4 | $30.3 | $31.4 | $31.9 | $30.8 | $32.7 | $32.0 |
| Total Expenses per Head - R & R | $24.1 | $26.6 | $27.3 | $30.4 | $30.3 | $31.7 | $29.8 |
| Recurrent Expenses# - All | $26.7 | $26.5 | $28.7 | $29.6 | $28.5 | $28.8 | $29.0 |
| Recurrent Expenses#- R & R | $21.3 | $22.6 | $25.9 | $28.9 | $29.0 | $28.9 | $28.3 |
| Total Grants as % Total Expenses - All | 16.5% | 18.0% | 18.8% | 16.7% | 22.0% | 16.6% | 16.3% |
| Total Grants as % Total Expenses - R & R | 24.4% | 24.5% | 26.7% | 19.7% | 23.4% | 18.5% | 21.6% |
| Recurrent Grants as % Recurrent Expenses - All | 18.2% | 18.4% | 17.7% | 16.0% | 16.4% | 16.7% | 16.6% |
| Recurrent Grants as % Recurrent Expenses - R & R | 26.0% | 23.6% | 23.6% | 18.8% | 18.9% | 19.5% | 20.6% |

# includes library collection costs

Deflated by CPI

A review of funding at library service level confirms the differing experience across rural and regional services - some with increases in real recurrent grants per head and some with decreases. However, generally grants account for a smaller proportion of expenses than ever before.

**Table 11: Real Recurrent Public Library Grants and Expenses per Head – Selected Library Services ($2003)**

|  | **2003** | | **2008** | | **2014** | | **2015** | | **2003** | **2008** | **2014** | **2015** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Grants** | **Expenses** | **Grants** | **Expenses** | **Grants** | **Expenses** | **Grants** | **Expenses** | **Grants as % Expenses** | | | |
| Campaspe | 5.23 | 21.23 | 5.88 | 20.35 | 5.45 | 33.12 | 5.63 | 40.27 | 24.6% | 28.9% | 16.4% | 14.0% |
| Central Highlands | 4.93 | 15.81 | 6.38 | 22.19 | 5.82 | 36.60 | 5.94 | 25.12 | 31.2% | 28.7% | 15.9% | 23.6% |
| Corangamite | 5.87 | 15.00 | 5.70 | 20.28 | 6.07 | 26.61 | 6.67 | 26.16 | 39.2% | 28.1% | 22.8% | 25.5% |
| Gannawarra | 6.88 | 29.86 | 7.74 | 34.46 | 8.91 | 43.30 | 9.49 | 43.06 | 23.0% | 22.5% | 20.6% | 22.0% |
| Geelong | 4.85 | 19.68 | 5.32 | 22.59 | 4.73 | 25.73 | 4.72 | 29.44 | 24.6% | 23.6% | 18.4% | 16.0% |
| Goldfields | 5.21 | 18.29 | 5.40 | 21.92 | 5.23 | 25.79 | 5.27 | 23.74 | 28.5% | 24.6% | 20.3% | 22.2% |
| Goulburn Valley | 5.60 | 20.55 | 7.44 | 27.02 | 5.61 | 24.39 | 5.71 | 24.29 | 27.3% | 27.5% | 23.0% | 23.5% |
| High Country | 5.82 | 23.57 | 6.65 | 29.36 | 7.19 | 26.56 | 7.57 | 26.86 | 24.7% | 22.7% | 27.1% | 28.2% |
| Latrobe | 5.18 | 20.02 | 4.86 | 16.55 | 5.04 | 21.87 | 4.98 | 20.62 | 25.9% | 29.4% | 23.1% | 24.1% |
| Mildura | 4.99 | 30.98 | 5.80 | 31.33 | 5.32 | 32.67 | 5.28 | 33.17 | 16.1% | 18.5% | 16.3% | 15.9% |
| Mitchell | 5.12 | 22.62 | 6.68 | 34.61 | 5.34 | 27.68 | 5.51 | 30.10 | 22.6% | 19.3% | 19.3% | 18.3% |
| Wellington | 5.36 | 18.05 | 5.46 | 24.57 | 5.48 | 25.47 | 5.49 | 24.63 | 29.7% | 22.2% | 21.5% | 22.3% |
| West Gippsland | 5.32 | 26.34 | 6.27 | 31.03 | 5.56 | 33.89 | 5.61 | 36.50 | 20.2% | 20.2% | 16.4% | 15.4% |
| Wimmera | 6.33 | 24.24 | 8.46 | 38.16 | 8.51 | 31.20 | 9.73 | 32.86 | 26.1% | 22.2% | 27.3% | 29.6% |

# includes library collection costs

Deflated by CPI

Despite technological innovation that has worked to improve efficiencies in public libraries, for example machine sorting of books and self-check-out, a number of trends have influenced service provision costs:

* libraries have grown in popularity and so have the services they offer;
* opening times and hours have been extended to cater for demand that arises from increased flexibility and expansion in workplace hours in society generally;
* library roles as educational and community hubs are increasing;
* there is increasing demand for material in new forms (e.g. e-books) while there has been only a slight decrease in the demand for printed books;
* changes in the composition of collections necessitates a redesign of library spaces;
* increased reliance on electronic resources requires additional support for employees to train in the use of new technology – library staff require both basic technological knowledge and more advanced expertise with a variety of products; and
* there is a constant increase in demand for increased bandwidth and more computers with many libraries having to improve connection speeds and provide more public access computers.

### HACC

Historically Home and Community Care (HACC) has been funded as an output purchasing scheme under which the State Government pays councils a unit price for service delivery. This price has never fully compensated councils. Major funding responsibility for HACC has now shifted from the State to the Commonwealth. Notwithstanding this HACC has been a major focus for Victorian local government. Whether future arrangements under the Commonwealth will improve the lot of councils continuing to retain a role in HACC will be particularly important.

MAV analysis of HACC has consistently found it characterised by:

* State output prices with little relation to service provision costs;
* variations in funding outcomes difficult to reconcile with the similarities in, or differences between, councils; and
* less than intended service growth that has not been keeping pace with demand - data for about one half of Victorian councils show that despite “growth funding” there has been a decline in the number of units of core HACC services over time.

Major changes in the output funding prices in 2015-16 partially overcame the issue with under-priced output purchase prices being offset by the delivery of fewer funded hours. The current prices have improved, although there has been no additional funding provided, implying that this reform has improved the transparency of the funding program delivery without necessarily materially influencing the contribution of local government.

MAV analysis from 2013-14 data has shown output prices for domestic assistance, personal care, respite and property maintenance do not cover the labour and related on-costs of the direct care workers involved, let alone travel allowances, other direct costs, overheads, administration, coordination and management costs. The subsidy for delivered meals also continues to be less than meals delivery costs, which the State claims is its purpose and, in terms of the cost of a delivered meal, is minimal.

Unit prices paid by the State for its HACC purchases accounted only for between 50% to 60% of the reasonable unit cost of domestic assistance, personal care and respite and less than 70% for property maintenance. The subsidy for a delivered meal represents 9% of the estimated reasonable cost. The funding of assessment at the nursing rate, while on face-value appears generous, is difficult to evaluate because it is funded on the basis of three hours per client when councils are spending four hours. The indirect hours involved in assessment are also an issue.

**Table 12: Reasonable Unit Costs and DoH Unit Output Prices 2013-14**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Reasonable Unit Cost (RUC)** | **DoH Unit Price** | **RUC as % Reasonable Unit Cost** |
| Domestic Assistance | 56.79 | 31.51 | 55% |
| Personal Care | 68.91 | 36.00 | 52% |
| Respite | 57.23 | 32.54 | 57% |
| Property Maintenance | 66.86 | 45.82 | 69% |
| Meals | 17.00 | 1.61 | 9% |
| PAGs Core | 18.83 | 12.80 | 68% |
| PAGs High | 21.19 | 18.03 | 85% |
| Assessment | 72.52 | 87.66 | 121% |

Note: Assessment is based on 3 hours however council average is 4 hours

Information on the reasonable unit cost, output prices and unit revenues can be used to establish how the cost of services is borne. This is provided in Table 13. The council contribution to services is a function of councils’ unit costs, the mix of services being provided and the effects of under-supply of DoH purchase volumes in the case of a number of councils.

**Table 13: Council Contribution to HACC Based on RUC and Median Unit Client Fees**

|  | **Reasonable Unit Cost (RUC)** | **DoH Unit Price** | **Client Fee** | **Council Contribution** | **% Council Contribution** |
| --- | --- | --- | --- | --- | --- |
| Domestic Assistance | 56.79 | 31.51 | 5.7 | 19.58 | 34% |
| Personal Care | 68.91 | 36 | 4.3 | 28.61 | 42% |
| Respite | 57.23 | 32.54 | 3.1 | 21.59 | 38% |
| Property Maintenance | 66.86 | 45.82 | 11.4 | 9.64 | 14% |
| Meals | 17.00 | 1.61 | 8.0 | 7.39 | 43% |
| PAGs Core | 18.83 | 12.80 | 2.0 | 4.03 | 21% |
| PAGs High | 21.19 | 18.03 | 2.0 | 1.16 | 5% |
| Assessment | 72.52 | 87.66 | 0.0 | -15.14 | -21% |

Note: DoH Assessment Funding Based on Provision of 3 hours whereas councils provide 4 hours

Purely based on councils’ reasonable unit cost, the DoH’s output prices and its nominal purchases there was a quantum deficiency of about $174m in 2013-14. Excluding funding for Service System Resourcing which may at least partially offset some administration and management costs brings the deficiency to somewhere between $163m and $174m.

**Table 14: Quantum Deficiency Based on DoH Service Volumes & Reasonable Unit Cost 2013-14**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Total Units (millions)** | **Total Council Cost at RUC ($m)** | **Total Cost at Output Price ($m)** | **Deficiency ($m)** |
| Domestic Assistance | 2.47 | 140.24 | 77.82 | - 62.43 |
| Personal Care | 1.14 | 78.81 | 41.17 | - 37.64 |
| Respite Care | 0.72 | 41.11 | 23.38 | - 17.74 |
| Property Maintenance | 0.26 | 17.59 | 12.05 | - 5.53 |
| Meals | 3.38 | 57.45 | 5.44 | - 52.01 |
| PAGs Core | 0.58 | 10.85 | 7.37 | - 3.48 |
| PAGs High | 0.42 | 8.86 | 7.54 | - 1.32 |
| Assessment | 0.37 | 27.06 | 32.71 | 5.65 |
|  |  |  |  | - 174.49 |
| SSR |  |  |  | 10.93 |
|  |  |  |  | - 163.56 |

The deficiency in *output prices* does not tell the whole story. The extent of the shortfall in prices is impacted by the service volumes nominally purchased by the DoH. In effect, the output purchases by the DoH are better considered as quantum dollars since over-purchasing and under-supply of the nominal units purchased is common. For example, if the output price for a service is 20% below a council’s delivery cost but that council is funded for 15% more hours than it actually delivers, the actual dollar shortfall is reduced to 5%. Looked at another way, the actual output prices paid to individual councils may be materially different from the published output price.

When this is considered the data indicate that DoH funding accounts for between 51% and 81% of the cost of the units it supposedly purchases across all councils, with average and median values of 65%. On average, DoH funding accounts for 50% of total outlays on domestic assistance, personal care, respite and property maintenance.

**Table 15: HACC Funding as % Council Cost 2013-14 – Selected Rural & Regional Councils**

|  | **DoH Output Purchases as % Council Cost of DoH Related Units** | | | | | **DoH Output Purchases as % Council Total Outlays** | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Domestic Assistance** | **Personal Care** | **Respite** | **Property Maintenance** | **Total** | **Domestic Assistance** | **Personal Care** | **Respite** | **Property Maintenance** | **Total** |
| A | 74% | 63% | 79% | 175% | 74% | 46% | 38% | 31% | 173% | 46% |
| B | 74% | 100% | 63% | 78% | 76% | 62% | 76% | 59% | 78% | 64% |
| C | 55% | 60% | 56% | 79% | 57% | 43% | 39% | 35% | 77% | 43% |
| D | 63% | 61% | 66% | 82% | 65% | 45% | 35% | 34% | 77% | 43% |
| E | 55% | 55% | 67% | 106% | 58% | 43% | 39% | 63% | 106% | 45% |
| F | 60% | 66% | 70% | 66% | 62% | 40% | 40% | 33% | 53% | 40% |
| G | 67% | 75% | 80% | 90% | 72% | 52% | 39% | 52% | 80% | 51% |
| H | 60% | 72% | 70% | 112% | 66% | 57% | 64% | 62% | 91% | 61% |
| I | 86% | 73% | 67% | 166% | 81% | 81% | 73% | 64% | 166% | 79% |
| J | 62% | 82% | 90% | 97% | 68% | 49% | 46% | 22% | 94% | 47% |
| K | 65% | 67% | 66% | 134% | 70% | 61% | 62% | 63% | 131% | 66% |
| L | 69% | 74% | 78% | 120% | 74% | 44% | 20% | 21% | 102% | 36% |
| M | 61% | 80% | 73% | 170% | 67% | 39% | 52% | 30% | 140% | 42% |
| N | 62% | 62% | 55% | 77% | 61% | 59% | 45% | 53% | 77% | 55% |
| O | 54% | 101% | 251% | 63% | 68% | 41% | 43% | 95% | 60% | 46% |
| P | 65% | 66% | 60% | 104% | 70% | 43% | 66% | 60% | 98% | 53% |
|  |  |  |  |  |  |  |  |  |  |  |
| Average | 61.8% | 71.6% | 73.4% | 99.0% | 65.2% | 50.6% | 53.1% | 49.7% | 92.8% | 52.1% |
| Median | 60.1% | 67.0% | 65.5% | 87.1% | 65.5% | 47.0% | 50.4% | 53.1% | 82.1% | 51.5% |
| Stdev | 8.1% | 17.7% | 40.0% | 33.9% | 7.4% | 10.1% | 17.7% | 17.0% | 32.2% | 10.1% |
| Max | 85.5% | 125.8% | 250.9% | 174.8% | 81.3% | 81.3% | 99.4% | 94.6% | 173.2% | 78.6% |
| Min | 49.8% | 48.0% | 50.8% | 52.2% | 50.6% | 38.7% | 20.0% | 21.3% | 52.2% | 36.0% |

Note: Councils anonymity provided in survey. Letters denote particular rural and regional councils

More recent State output prices and estimates of local government cost increases since 2013-14 suggest these ratios were indicative at least until the Commonwealth assumed major responsibility for the HACC program.

## Defined Benefits Superannuation

The sector has an ongoing legacy related to defined benefits superannuation that impacts adversely when market returns are unfavourable. The Local Authorities Superannuation Fund Defined Benefit Plan was closed to new members in 1993, but there are still almost 5,000 people in the workforce who are still contributing to the scheme. There are also thousands of lifetime pensioners and deferred beneficiaries that continue to be entitled to payments from the fund.

Additional calls (including contributions tax) made on councils[[2]](#footnote-3) have included $358m in 1997, $127m in 2003 and most recently a massive $463m in 2013.The impost is considerable, impacting councils differently with the age of workforces being a major consideration and impacts relatively more severe for rural councils because of employment longevity. Rural and regional councils accounted for the top quarter of councils in terms of the size of the additional call relative to their rates revenue with the vast majority of these being rural councils.

**Table 16: Defined Benefits Call (DBC) in 2012 as % Rates 2012-13 and Average Assets Renewal Spending – Rural and Regional Councils**

|  | **DBC 2012 ($m)** | **Rates 2012-13 ($m)** | **DBC as % Rates 2012-13** | **DBC as % Rates 3 Years** | **DBC as % Rates 5 Years** | **Capital Renewal Average Annual 5 Years to 2012-13 ($m)** | **DBC as % Average Annual Renewal** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Loddon | 2.1 | 8.2 | 25.3% | 7.9% | 4.5% | 5.6 | 37% |
| Pyrenees | 1.8 | 7.3 | 25.3% | 8.0% | 4.5% | 3.0 | 62% |
| Glenelg | 4.1 | 17.6 | 23.0% | 6.1% | 3.2% | 5.1 | 80% |
| Yarriambiack | 2.1 | 9.5 | 22.2% | 6.9% | 3.9% | 4.2 | 50% |
| West Wimmera | 1.2 | 5.7 | 21.1% | 6.7% | 3.8% | 4.2 | 29% |
| Central Goldfields | 2.2 | 10.7 | 21.0% | 6.5% | 3.7% | 4.9 | 46% |
| Buloke | 2.0 | 9.9 | 20.1% | 6.2% | 3.5% | 5.2 | 38% |
| Hindmarsh | 1.3 | 6.4 | 19.8% | 6.1% | 3.5% | 5.5 | 23% |
| Ararat | 2.6 | 12.9 | 19.7% | 6.2% | 3.5% | 4.4 | 58% |
| Southern Grampians | 2.8 | 15.3 | 18.3% | 5.7% | 3.3% | 6.0 | 47% |
| Gannawarra | 1.8 | 10.0 | 18.1% | 5.8% | 3.3% | 5.3 | 34% |
| Swan Hill | 4.0 | 22.0 | 18.1% | 5.8% | 3.3% | 7.1 | 56% |
| Warrnambool | 4.8 | 27.6 | 17.4% | 5.5% | 3.1% | 7.6 | 63% |
| Corangamite | 2.9 | 16.9 | 17.2% | 5.4% | 3.1% | 6.2 | 46% |
| Moyne | 2.8 | 16.7 | 16.7% | 5.2% | 3.0% | 9.2 | 30% |
| Towong | 1.0 | 6.3 | 16.6% | 5.2% | 3.0% | 3.0 | 35% |
| Horsham | 3.1 | 19.4 | 15.9% | 4.9% | 2.8% | 7.8 | 39% |
| Northern Grampians | 2.1 | 13.7 | 15.4% | 4.9% | 2.8% | 9.0 | 23% |
| Greater Shepparton | 8.6 | 56.8 | 15.2% | 4.8% | 2.7% | 12.4 | 70% |
| South Gippsland | 4.6 | 31.4 | 14.7% | 4.6% | 2.6% | 6.5 | 70% |
| Greater Geelong | 23.5 | 160.9 | 14.6% | 4.6% | 2.6% | 20.1 | 117% |
| Campaspe | 4.5 | 31.7 | 14.1% | 4.4% | 2.5% | 12.7 | 35% |
| Wangaratta | 3.2 | 23.2 | 13.9% | 4.4% | 2.5% | 6.1 | 53% |
| Mildura | 7.3 | 52.5 | 13.8% | 4.3% | 2.5% | 13.5 | 54% |
| Colac-Otway | 3.2 | 23.3 | 13.6% | 4.2% | 2.4% | 6.9 | 46% |
| Benalla | 1.8 | 13.4 | 13.6% | 4.3% | 2.5% | 3.1 | 58% |
| Murrindindi | 2.0 | 14.6 | 13.6% | 4.2% | 2.4% | 3.2 | 62% |
| Greater Bendigo | 10.3 | 79.9 | 12.9% | 4.0% | 2.2% | 21.0 | 49% |
| Ballarat | 9.6 | 77.3 | 12.5% | 3.8% | 2.1% | 18.8 | 51% |
| Golden Plains | 1.8 | 15.4 | 11.4% | 3.5% | 1.9% | 3.6 | 49% |
| Wellington | 4.8 | 43.1 | 11.2% | 3.5% | 2.0% | 12.4 | 39% |
| Latrobe | 7.0 | 62.6 | 11.1% | 3.5% | 2.0% | 17.2 | 41% |
| Indigo | 1.3 | 12.1 | 11.0% | 3.4% | 1.9% | 4.4 | 30% |
| Alpine | 1.6 | 14.2 | 11.0% | 3.5% | 2.0% | 2.9 | 54% |
| Macedon Ranges | 3.8 | 35.1 | 10.9% | 3.4% | 1.9% | 5.9 | 65% |
| Bass Coast | 4.1 | 39.7 | 10.3% | 3.2% | 1.8% | 5.4 | 76% |
| Moorabool | 2.4 | 24.2 | 9.9% | 3.1% | 1.7% | 8.1 | 30% |
| Wodonga | 3.3 | 33.9 | 9.7% | 3.0% | 1.7% | 1.3 | 255% |
| Mitchell | 2.6 | 27.7 | 9.4% | 2.9% | 1.6% | 5.3 | 49% |
| Mount Alexander | 1.6 | 16.8 | 9.3% | 2.9% | 1.6% | 5.7 | 27% |
| East Gippsland | 3.8 | 41.8 | 9.1% | 2.8% | 1.6% | 13.7 | 28% |
| Hepburn | 1.4 | 15.8 | 9.0% | 2.9% | 1.7% | 8.1 | 17% |
| Mansfield | 1.0 | 10.7 | 9.0% | 2.9% | 1.7% | 1.2 | 80% |
| Strathbogie | 1.3 | 14.2 | 8.9% | 2.8% | 1.6% | 3.3 | 38% |
| Baw Baw | 3.4 | 41.3 | 8.3% | 2.6% | 1.5% | 6.9 | 50% |
| Surf Coast | 2.5 | 37.8 | 6.7% | 2.1% | 1.2% | 4.7 | 54% |
| Moira | 1.7 | 27.7 | 6.0% | 1.9% | 1.1% | 5.1 | 33% |
|  |  |  |  |  |  |  |  |
| Inner Metro | 167.8 | 1,487.0 | 11.3% | 3.5% | 2.0% | 261.4 | 64% |
| Large Shires | 51.9 | 446.2 | 11.6% | 3.6% | 2.0% | 117.8 | 44% |
| Outer Metro | 122.1 | 1,297.5 | 9.4% | 2.9% | 1.6% | 172.6 | 71% |
| Regional Cities | 84.7 | 616.0 | 13.7% | 4.3% | 2.4% | 132.9 | 64% |
| Small Shires | 36.2 | 258.3 | 14.0% | 4.4% | 2.5% | 93.1 | 39% |
| All Councils | 462.6 | 4,105.0 | 11.3% | 3.5% | 2.0% | 777.8 | 59% |
|  |  |  |  |  |  |  |  |
| Rural & Regional | 172.5 | 1,314.9 | 13.1% | 4.1% | 2.3% | 342.7 | 50% |

Analysis shows that the additional defined benefits liabilities involved are equivalent to as much as one quarter of rate revenues in some rural councils and account for significant proportions of annual asset renewal spending.

## Capital Renewal Requirements

Council services involve the provision of considerable buildings and infrastructure. Improved accounting and asset management approaches have more accurately defined councils’ increased financial responsibilities for these assets while added to this has been increasing financial pressure coming from other quarters.

Analysis shows that the buildings and infrastructure portfolios of councils have grown significantly with average annual increases well above general increases in FAGs and well above an increase in rate revenues that would have been rendered by rate capping based on its current incarnation.

### Asset Values and renewal Spending

**Table 17: Infrastructure & Buildings Asset Value Growth and Renewal Spending as % Rate Revenue - Rural & Regional Councils**

|  |  | **4 Yr Moving Average Renewal as % 4 Year Moving Average Rates** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Average Annual Increase in Value of Infrastructure & Buildings 10 Years to 2014-15** | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** |
| ALPINE (S) | 5.4% | 26.8% | 27.1% | 25.8% | 24.4% | 22.8% | 23.5% | 23.2% | 23.2% |
| ARARAT (RC) | 4.0% | 27.7% | 30.0% | 32.9% | 37.6% | 39.7% | 40.2% | 38.1% | 36.4% |
| BALLARAT (C) | 7.8% | 30.8% | 33.9% | 37.0% | 35.7% | 31.9% | 25.7% | 22.0% | 18.1% |
| BASS COAST (S) | 9.1% | 12.8% | 13.3% | 13.8% | 16.6% | 17.5% | 15.5% | 16.1% | 13.9% |
| BAW BAW (S) | 7.9% | 20.7% | 18.1% | 18.2% | 18.3% | 19.5% | 22.5% | 25.7% | 27.4% |
| BENALLA (RC) | 4.4% | 20.7% | 21.3% | 19.7% | 24.1% | 24.8% | 26.1% | 28.7% | 22.5% |
| BULOKE (S) | 2.4% | 45.9% | 51.4% | 52.4% | 47.0% | 49.3% | 57.7% | 58.9% | 58.9% |
| CAMPASPE (S) | 2.8% | 35.2% | 35.9% | 34.9% | 34.2% | 42.0% | 47.6% | 53.6% | 53.0% |
| CENTRAL GOLDFIELDS (S) | 6.9% | 19.6% | 23.1% | 25.8% | 38.8% | 38.4% | 58.5% | 59.3% | 48.5% |
| COLAC OTWAY (S) | 4.5% | 37.7% | 35.6% | 33.7% | 33.9% | 33.7% | 35.3% | 37.2% | 36.1% |
| CORANGAMITE (S) | 6.5% | 38.2% | 40.8% | 41.5% | 44.7% | 42.7% | 40.1% | 40.5% | 42.3% |
| EAST GIPPSLAND (S) | 6.9% | 26.7% | 31.8% | 30.5% | 31.7% | 33.1% | 35.9% | 36.6% | 41.5% |
| GANNAWARRA (S) | 6.2% | 47.4% | 39.9% | 41.7% | 48.1% | 52.8% | 66.3% | 64.7% | 66.0% |
| GLENELG (S) | 8.3% | 26.2% | 25.7% | 23.9% | 23.3% | 24.4% | 28.2% | 28.3% | 27.5% |
| GOLDEN PLAINS (S) | 12.7% | 15.7% | 17.7% | 23.9% | 26.5% | 29.7% | 30.1% | 28.2% | 27.0% |
| GREATER BENDIGO (C) | 7.5% | 10.7% | 21.2% | 24.5% | 24.2% | 28.3% | 27.2% | 26.4% | 25.1% |
| GREATER GEELONG (C) | 6.5% | 15.0% | 14.7% | 14.4% | 13.6% | 14.0% | 13.8% | 13.2% | 13.4% |
| GREATER SHEPPARTON (C) | 8.9% | 7.7% | 12.0% | 15.9% | 21.2% | 25.1% | 26.0% | 23.5% | 22.4% |
| HEPBURN (S) | 5.4% | 22.6% | 27.3% | 28.4% | 32.9% | 51.9% | 67.1% | 67.4% | 64.2% |
| HINDMARSH (S) | 5.2% | 55.6% | 61.8% | 68.2% | 68.0% | 68.6% | 102.1% | 96.7% | 88.8% |
| HORSHAM (RC) | 6.8% | 24.5% | 28.6% | 33.4% | 35.2% | 44.7% | 48.7% | 47.1% | 48.1% |
| INDIGO (S) | 3.0% | 33.4% | 38.7% | 40.3% | 32.4% | 42.4% | 44.0% | 40.9% | 38.5% |
| LATROBE (C) | 7.6% | 29.7% | 30.8% | 34.1% | 34.8% | 33.8% | 31.4% | 28.3% | 24.5% |
| LODDON (S) | 5.2% | 49.6% | 50.0% | 49.7% | 43.4% | 90.4% | 83.3% | 82.4% | 83.7% |
| MACEDON RANGES (S) | 8.7% | 15.4% | 15.2% | 16.1% | 16.8% | 18.2% | 20.9% | 21.5% | 23.8% |
| MANSFIELD (S) | 0.1% | 14.9% | 13.9% | 12.2% | 11.0% | 9.9% | 12.3% | 19.8% | 19.6% |
| MILDURA (RC) | 3.1% | 22.3% | 21.7% | 24.1% | 24.2% | 27.1% | 31.1% | 29.5% | 28.3% |
| MITCHELL (S) | 7.9% | 21.8% | 22.3% | 21.4% | 22.7% | 23.8% | 23.8% | 23.1% | 21.7% |
| MOIRA (S) | 8.4% | 20.2% | 19.4% | 19.7% | 20.5% | 22.7% | 22.8% | 21.2% | 19.7% |
| MOORABOOL (S) | 10.1% | 29.3% | 34.4% | 35.1% | 29.4% | 35.9% | 37.1% | 39.4% | 40.9% |
| MOUNT ALEXANDER (S) | 5.3% | 25.1% | 26.9% | 32.0% | 33.3% | 33.6% | 36.8% | 31.9% | 30.0% |
| MOYNE (S) | 7.1% | 62.4% | 67.3% | 67.8% | 63.6% | 62.6% | 63.1% | 63.0% | 65.5% |
| MURRINDINDI (S) | 7.2% | 21.2% | 20.0% | 22.8% | 23.8% | 26.4% | 26.5% | 27.0% | 26.0% |
| NORTHERN GRAMPIANS (S) | 10.3% | 37.1% | 39.9% | 39.0% | 49.1% | 69.0% | 83.9% | 85.1% | 69.9% |
| PYRENEES (S) | 3.0% | 76.2% | 73.7% | 75.1% | 66.4% | 44.5% | 44.8% | 34.5% | 38.7% |
| SOUTH GIPPSLAND (S) | 4.1% | 16.8% | 17.9% | 16.9% | 16.9% | 21.7% | 25.1% | 28.8% | 29.3% |
| SOUTHERN GRAMPIANS (S) | 5.2% | 47.4% | 58.2% | 50.2% | 50.2% | 48.5% | 42.9% | 43.2% | 41.5% |
| STRATHBOGIE (S) | 8.8% | 14.2% | 16.1% | 17.5% | 18.1% | 25.8% | 29.6% | 33.1% | 37.9% |
| SURF COAST (S) | 7.0% | 13.6% | 14.6% | 14.9% | 14.5% | 14.6% | 13.5% | 12.9% | 13.1% |
| SWAN HILL (RC) | 8.8% | 16.6% | 17.4% | 23.3% | 25.6% | 33.3% | 39.1% | 36.4% | 36.7% |
| TOWONG (S) | 0.0% | 25.3% | 40.2% | 48.8% | 49.7% | 46.5% | 51.8% | 60.1% | 59.2% |
| WANGARATTA (RC) | 5.1% | 16.3% | 25.6% | 30.3% | 29.2% | 29.1% | 28.4% | 25.3% | 28.2% |
| WARRNAMBOOL (C) | 14.7% | 23.8% | 28.1% | 29.4% | 31.5% | 33.9% | 30.6% | 32.2% | 29.7% |
| WELLINGTON (S) | 7.8% | 40.2% | 43.1% | 43.4% | 41.4% | 32.8% | 30.3% | 28.4% | 29.3% |
| WEST WIMMERA (S) | 7.9% | 74.6% | 84.2% | 98.0% | 95.5% | 93.2% | 84.7% | 77.2% | 77.4% |
| WODONGA (C) | 9.5% | 9.1% | 5.9% | 3.7% | 2.0% | 3.3% | 5.1% | 6.9% | 7.9% |
| YARRIAMBIACK (S) | 4.9% | 47.5% | 47.7% | 49.6% | 41.6% | 49.4% | 52.8% | 51.9% | 57.1% |
|  |  |  |  |  |  |  |  |  |  |
| Inner Metro | 5.1% | 16.8% | 17.5% | 17.2% | 16.9% | 17.5% | 17.1% | 17.1% | 17.5% |
| Large Shires | 6.9% | 28.1% | 29.5% | 28.9% | 28.6% | 29.4% | 30.5% | 31.4% | 32.1% |
| Outer Metro | 8.1% | 10.6% | 11.9% | 13.1% | 14.8% | 15.7% | 15.7% | 16.1% | 15.5% |
| Regional Cities | 7.6% | 18.4% | 20.9% | 23.1% | 23.3% | 24.8% | 24.2% | 22.7% | 21.6% |
| Small Shires | 5.9% | 29.3% | 31.2% | 32.8% | 33.9% | 38.6% | 43.0% | 42.7% | 40.6% |
| All Councils | 6.7% | 17.2% | 18.5% | 19.1% | 19.5% | 20.5% | 20.7% | 20.6% | 20.4% |
|  |  |  |  |  |  |  |  |  |  |
| Rural & Regional | 6.9% | 23.8% | 25.8% | 26.9% | 27.2% | 29.1% | 30.1% | 29.6% | 28.9% |

The data show the much higher proportion of rate revenues directed to renewal spending[[3]](#footnote-4) in rural and regional councils generally, particularly in small and large shires and point to the growth in this indicator for small rural shires. The Table clearly highlights some massive increases for councils known to have extensive local road networks. Several councils “buck the trend” showing renewal spending has declined or increased marginally as a proportion of rates revenue. Possible explanations for these councils may include asset rationalisations, reductions in intervention levels or some need to shift spending to non-capital areas.

### Shortfall in Renewal Spending

Despite increased spending by councils, various studies have pointed to the shortfall in infrastructure renewal spending by councils including the Victorian Auditor-General. The MAV’s STEP Program consistently identifies shortfalls.

It found that while gaps continue to persist there has been a 15% decrease in the renewal gap since 2010/11 in rural and regional councils. The above analysis confirms that this has been funded largely by rate increases and an increasing proportion of rate revenue being devoted to asset renewal. The STEP Program also indicated an expectation of a further reduction in renewal gap between 2016-17 and 2020-21 for rural and regional councils. Some caution however needs to be observed in relation to the latter given that at least in some cases the forward capital program has been based on 2013-14 and 2014-15 data and the impact of rate capping may not have been factored.

**Table 18:Renewal Gaps – Rural & Regional Councils in STEP Program**

| **Council** | **Rates 2014-15 ($m)** | **Average Renewal Spend from CT Report 2014-15 ($m)** | **Average Renewal Demand from CT Report 2014-15 ($m)** | **Renewal Gap 2014-15 ($m)** | **Renewal Gap as % Rates 2014-15** | **Estimated 2015/16 Asset Renewal Gap ($m)** | **Estimated 5 Year Average Annual Renewal Gap 2016/17 to 2020/21 (($m)** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Alpine | 15.88 | 2.01 | 2.36 | 0.35 | 2.2% | - | 0.01 |
| Bass Coast | 46.13 | 4.49 | 6.11 | 1.62 | 3.5% | - | - |
| Baw Baw | 46.85 | 5.36 | 13.16 | 7.80 | 16.7% | - | 3.84 |
| Benalla | 14.72 | 2.68 | 3.57 | 0.90 | 6.1% | 7.97 | 4.09 |
| Buloke | 11.44 | 4.64 | 6.62 | 1.98 | 17.3% | 13.03 | 8.14 |
| Campaspe | 35.91 | 10.20 | 11.01 | 0.82 | 2.3% | 14.68 | 7.80 |
| Central Goldfields | 12.24 | 3.33 | 4.02 | 0.68 | 5.6% | 0.41 | 0.54 |
| Colac-Otway | 26.63 | 6.33 | 7.80 | 1.47 | 5.5% | - | 0.91 |
| East Gippsland | 47.69 | 10.97 | 19.40 | 8.43 | 17.7% | 20.83 | 10.62 |
| Gannawarra | 10.99 | 1.45 | 0.44 | - | 0.0% | 1.88 | 0.54 |
| Golden Plains | 18.28 | 0.86 | 0.81 | - | 0.0% | 1.50 | 1.00 |
| Greater Bendigo | 93.76 | 9.94 | 14.41 | 4.47 | 4.8% | 17.45 | 10.24 |
| Greater Geelong | 181.90 | 14.64 | 28.45 | 13.81 | 7.6% | 12.16 | 19.87 |
| Greater Shepparton | 63.78 | 12.07 | 17.78 | 5.71 | 9.0% | 6.94 | 4.05 |
| Hindmarsh | 7.28 | 3.14 | 3.68 | 0.54 | 7.4% | 0.57 | 0.55 |
| Horsham | 22.31 | 7.56 | 8.10 | 0.54 | 2.4% | 1.21 | 1.20 |
| Indigo | 13.81 | 4.01 | 3.84 | - | 0.0% | 0.79 | 1.91 |
| Loddon | 9.17 | 3.89 | 4.56 | 0.68 | 7.4% | 3.18 | 0.47 |
| Macedon Ranges | 39.81 | 6.33 | 9.18 | 2.86 | 7.2% | 5.09 | 2.66 |
| Mansfield | 11.64 | 1.27 | 1.82 | 0.55 | 4.7% | 1.25 | 1.36 |
| Mildura | 59.37 | 9.61 | 16.03 | 6.41 | 10.8% | 14.95 | 8.11 |
| Mitchell | 32.92 | 2.07 | 5.81 | 3.75 | 11.4% | 4.33 | 2.36 |
| Moorabool | 27.63 | 2.07 | 5.81 | 3.75 | 13.6% | - | - |
| Moyne | 18.95 | 6.63 | 6.17 | - | 0.0% | 4.72 | 2.93 |
| Murrindindi | 16.87 | 2.65 | 3.66 | 1.01 | 6.0% | 1.86 | - |
| Northern Grampians | 15.06 | 5.52 | 8.73 | 3.21 | 21.3% | 4.82 | 1.65 |
| Pyrenees | 8.13 | 4.16 | 2.71 | - | 0.0% | 1.91 | 0.92 |
| South Gippsland | 35.80 | 2.95 | 10.95 | 8.00 | 22.4% | - | 0.43 |
| Southern Grampians | 17.21 | 5.79 | 6.12 | 0.33 | 1.9% | - | 0.22 |
| Strathbogie | 16.17 | 4.14 | 4.30 | 0.15 | 1.0% | 2.35 | - |
| Surf Coast | 42.98 | 2.63 | 3.87 | 1.24 | 2.9% | - | 0.70 |
| Swan Hill | 24.18 | 3.03 | 6.28 | 3.25 | 13.4% | 2.78 | - |
| Towong | 7.04 | 2.01 | 1.93 | - | 0.0% | - | - |
| Wangaratta | 26.34 | 5.67 | 5.67 | - | 0.0% | - | - |
| Wellington | 49.39 | 19.11 | 13.25 | - | 0.0% | - | 0.28 |
| West Wimmera | 6.36 | 4.59 | 2.62 | - | 0.0% | - | - |
| Wodonga | 37.97 | 4.54 | 5.14 | 0.61 | 1.6% | 0.18 | - |
| Yarriambiack | 10.83 | 3.19 | 6.18 | 2.99 | 27.6% | 0.87 | 0.76 |
|  |  |  |  |  |  |  |  |
| **Councils with Gap** |  |  |  |  |  |  |  |
| Inner Metro | 849.04 | 97.19 | 137.54 | 40.35 | 4.8% | 31.87 | 27.31 |
| Large Shires | 385.02 | 60.01 | 100.37 | 40.36 | 10.5% | 59.47 | 36.83 |
| Outer Metro | 666.97 | 56.67 | 78.09 | 21.41 | 3.2% | 36.39 | 1.35 |
| Regional Cities | 445.31 | 56.85 | 91.05 | 34.21 | 7.7% | 55.66 | 43.47 |
| Small Shires | 155.85 | 35.62 | 48.37 | 12.74 | 8.2% | 32.54 | 17.85 |
| All Councils | 2,502.19 | 306.34 | 455.42 | 149.07 | 6.0% | 215.92 | 126.81 |
|  |  |  |  |  |  |  |  |
| Rural & Regional | 986.18 | 152.48 | 239.79 | 87.31 | 8.9% | 147.67 | 98.15 |

Note: only councils participating in STEP used in analysis

Notwithstanding some concern that future shortfall figures are understated the data show that the gap accounts for a significant proportion of rates revenue and the practical impossibility of addressing the gap without substantially higher-than-cost- of- living/wages increases in rates or increased grant funding. The data also show that the revenue issue is greater in rural and regional councils reflecting the level of renewal demand associated with roads infrastructure.

## Cumulative Effect of State Decisions

The cumulative effect of a number of state decisions that influence the resources and costs of rural councils is significant. These decisions include inadequate funding, increasing reporting requirements and shifting additional responsibilities on to councils.

The MAV has advocated improving the funding directed to Victorian councils in a range or programs delivered by the sector on behalf of the Victorian Government and the Commonwealth Government. Inadequate funding for a range of council services delivered on behalf of these governments has led to financial stresses being felt by councils. In a time of rate capping, these challenges have become particularly critical.

Key challenges for local government (not otherwise discussed further above) include the following:

* School crossing supervisors
* SES unit funding

These program funding challenges have common attributes – funding arrangements from the State Government has failed to keep pace with the core costs of the program resulting in councils becoming responsible for an ever greater share of the costs of delivering the service to the community.

Each of these programs had either equal funding responsibilities (such as school crossing supervisors) or has dramatically changed from their original state (such as SES unit funding) with the State now assuming overall responsibility. All of these programs have significant costs that are borne by rural communities despite powerful arguments in favour of greater state support.

In addition, there are a number of current examples where activities which some councils undertake are then being proposed for all councils to undertake. For example, maintenance of fire services plugs has been allocated to councils as a responsibility under the Water Act 1989, even though there are many councils which argue they do not have the capacity to fulfil this role, and that this role is more within the remit of water corporations, who have a legislated role to supply water. Similar outcomes may also arise in the current discussions about improvements to metering and maintenance of emergency water supply points. While some councils will be comfortable with this role, many councils believe that these are more appropriately the remit of water corporations as they have the expertise and capacity to charge for the service.

Rural drainage is another example, with the Victorian Government announcing in its response to the Parliamentary Committee’s inquiry into rural drainage that councils will have overarching responsibility for rural drainage in Victoria, in particular, that they will be responsible for supporting existing community drainage management groups under a beneficiary pays model. While councils’ role is still being clarified in the development of the Victorian Rural Drainage Strategy, it is clear that councils will be a main conduit to enabling the State achieve reform of the many legacy issues that have resulted from the multiple state, local and private-sector agencies involved in creating and/or management of drainage on private land in the past.

While discussions are still underway with the Department of Environment, Land Water and Planning (DELWP) about these issues, we alert the Inquiry to them to highlight the myriad of examples where the State is requiring all councils to take on more responsibilities.

The level of administration required of councils by various Victorian Government departments is often onerous with unclear benefits for the amount of work involved for councils. For example, in the area of food safety regulation councils have to report a considerable level of information to the Department of Health and Human Services (DHHS) on a quarterly basis, then they have to report separately with additional data to Local Government Victoria (LGV) for inclusion on the Know Your Council website. The data in the public arena often conflicts, as they are for different reporting periods. An improvement would be for DHHS to provide councils’ data to LGV, so councils only report to one entity.

The EPA’s withdrawal of advice to councils about the sorts of conditions that would be appropriate to consider when they issue permits for on-site domestic wastewater systems is an example of a state agency narrowing the resources it applies to an activity with consequent additional burden and increased legal liability for councils. Prior to 1 July 2016, the EPA provided certificates of approval for particular systems and recommendations about the conditions councils could consider imposing as part of their approval processes in issuing permits. Since 1 July, however, the EPA has withdrawn this activity, instead requiring councils to only issue permits for broad types of systems that are included on its website, rather than individual systems, and for each council to check manufacturers’ instructions to consider what conditions should be applied for particular systems. This is despite the national standards still being in draft form, and that there are no regulatory standards for instruction manuals prepared by manufacturers. Having less information and guidance from the EPA increases the liabilities for councils in issuing permits and potentially builds in legacy issues for the future. There is a need for centralised technical advice to be available from the EPA, which has technical expertise about pollution and is actively involved in the forums where national standards are developed and agreed.

Another example is the management of closed landfills. The costs of design, construction, operation and rehabilitation of landfills have escalated to meet the requirements of EPA’s *Best Practice Environmental Management for Landfills* (BPEM). For rural and regional councils that have multiple legacy closed landfills within their boundaries, the EPA’s increased activity and standards are a pressing concern. There are a number of rural municipalities that have well in excess of 15 closed landfills scattered among small towns where there is potentially limited environmental protections in place and limited resources to rectify this. Many councils do not have the resources or capacity to keep up with the knowledge and practice advances made in the waste industry. Furthermore, due to the geography and demographics of a number of rural shires, it’s not possible to charge the real costs of waste disposal without then having to deal with the very strong likelihood of increased illegal dumping. The reduction of EPA resourcing in regional areas means that councils no longer have ready access to expert guidance and advice that is cognizant of local operations and conditions. While EPA has almost certainly reduced its own risk exposure by requiring external auditors to be involved in the various stages of landfill construction, this has only exacerbated the cost burden for councils.

One of the sector’s greatest disappointments is that the State has not used landfill levy revenue to better support councils to achieve positive environmental outcomes in relation to management and rehabilitation of landfills. The MAV has long advocated for the funds to be expended on measures to help make a step-change in how Victoria manages its waste and captures resources, as well as assisting with the very costly task of rehabilitating landfills to EPA standards. We note the Victorian Auditor-General’s 2014 recommendation that the EPA work with the DELWP (formerly DEPI) and waste portfolio partners to develop options for the landfill levy to be used for the timely rehabilitation of high-risk landfills.

Councils play a vital role in assisting the state maintain its high immunisation coverage in preschool and school-age cohorts, through its provision of a universal state-wide service. Currently councils provide over 40 per cent of preschool immunisations, and over 90 per cent of school-age immunisations. However delivering immunisation services is increasingly costly to councils. In the last 12 months there have been new federal and state initiatives which have required greater levels of administration by councils with no commensurate increases in funding. Implementation of the Federal Government's initiative of "No Jab, No Pay" and the Victorian Government's "No Jab, No Play" policy have required considerable additional effort by councils to assist affected families with information and assistance to ensure the Australian Immunisation records detail their immunisation status so they can continue to receive Centrelink and Family Tax Benefit payments and rebates. Additional work is being required to transition to the "whole of life" immunisation register being developed. Labour rates are the main driver of cost increases for councils, however these are not factored in to the state’s calculations of the amounts it contributes to immunisation delivery.

As it is over 10 years since the state's immunisation subsidies to councils have been reviewed, it is timely for the Victorian Government to invest in a partnership study with the MAV to review the costs councils incur in delivering immunisation services. This will enable future decisions relating to immunisation to be evidence-based. It will also contribute to highlighting innovative and efficient practices councils have undertaken to reach vulnerable target populations.

As can be seen, the financial pressures placed on rural and regional councils by the Victorian Government are significant. Minor or moderate financial pressures have aggregated and cause substantial issues for many councils. It is essential that the Committee consider the cumulative effect of the full scope of financial pressures being placed on councils, rather than looking at some of the decisions in isolation.

## Implications for Rates

The major factors of concern discussed above lead directly to the issue of rate revenue – it seems unlikely in the current political climate that other governments will be disposed to providing a more equitable or reasonable level of future grant funding. Councils’ potential to increase revenue from other sources is particularly constrained because of statutory and regulatory limits on fees and funding agreements that limit what can be charged. This is particularly the case for rural and regional councils .Their abilities, at least in the case of large and small shires, to reduce costs without reducing service levels are also influenced by scale economies and size.

But councils now face the issue of rate-capping and arithmetically the figures just don’t add up. The new rate-capping regime could reasonably be expected to provide for rate increases (unless a variation is approved) in the range of 1.5% to 3.0%. Excluding cost-shifting and (amortised) additional calls on defined benefits contributions, asset renewal gaps together with real losses in FAGs would in many cases by themselves require levels of increase in this range.

# Proposed Changes to the Local Government Act

As the Committee would be aware, the Victorian Government has commenced a process to introduce a revised Local Government Act. The State has recently released its directions paper which identifies several worrying elements that could negatively affect rural and regional councils.

The review was presented as an opportunity to establish an Act with broad enabling powers, greater autonomy for councils and less prescription. The directions paper has fallen well short of providing a solid base for this result. Although the apparent direction of the Act review removes some provisions that are redundant or of little value, these provisions are generally of low impact in terms of council resources. On the other side of the ledger, the directions paper now proposes a significant increase in statutory requirements and greater prescription in a number of areas. And these requirements and prescription are, in some cases, high impact in terms of resources and of questionable value to councils and the communities they serve.

The MAV is very concerned that in an extremely tight fiscal environment underpinned by rate capping, further requirements and prescription proposed in the directions paper will add substantially to council costs without any increase in the efficiency of council operations. The cost of compliance should be a practical consideration wherever additional requirements and prescription is proposed. The development of the new Act should be of great interest to the Committee in the conduct of the inquiry.

# Rating Fairness

The theoretical basis for councils raising revenue through rates is strong. They are an extremely efficient source of taxation, with little deadweight loss associated with this form of revenue. Key reviews have suggested that rates are a ‘good’ tax – there is little distortion in economic activity through their application, it is simple and relatively cheap to collect, tax avoidance is difficult and it is spatially constrained, which makes it suitable for use by smaller governmental units, such as councils. Rates are one of the few taxes that apply to wealth in Australia and as such, the ‘fairness’ of rating also needs to consider its place within the broader taxation system.

Appendix 1 provides a comprehensive overview of the rating system and how concepts of fairness are addressed through the rating strategy development and implementation. This appendix provides a comprehensive discussion on concepts of rating fairness with particular relevance to rural and regional issues.

The MAV believes that rating fairness is an inherently political question that involves the political entity – elected councillors – making decisions about their community’s concepts of fairness and how this can be applied through the rating strategy.

The concepts underpinning the concept of fairness for a rating system are well understood and include three main approaches to equity - benefit pays, capacity to pay, or a wealth tax. Each of these notions of fairness could be appropriate depending on the views of the relevant community. It should be noted that there are complicating factors when applying them to a rating system, which means the implementation of a particular concept of fairness is not necessarily straight forward. For example, assessing benefits derived by individual ratepayers is difficult as failing to access services is not synonymous with not having access to the services, the unit cost of services may differ significantly by geographic location and the usage of services will differ over people’s lives. As such, assessing benefits is complex and would necessarily be crude if the goal of councils is to apply this concept precisely.

Councils have various tools available to apply their chosen definition of rating equity into an operational system, namely:

* Choice of valuation basis (site value, capital improved value, or net annual value)
* Whether to apply a municipal charge or not, and if so, at what level
* Whether to apply differential rates and if so, to which categories of land and at what penalty or discount
* Whether to apply a service charge (e.g. for waste collection) and if so, whether to set this at full cost recovery
* The balance between user charges and taxation (to the extent this is possible) including the application of special rates and charges schemes

The MAV believes that the concept of fairness adopted by a council should be internally and logically consistent in its rating strategy, which should be developed in consultation with the community. The appended report also discusses some of the argument generally put forward by specific groups of ratepayers within the community around rating fairness to outline some of the complexities facing councils when they are required to respond to multiple stakeholders with differing views around the objectives and attributes of a fair rating structure.

The MAV would be pleased to provide greater detail on rating issues should the inquiry desire this.

# Rate capping

The MAV has provided three submissions to the Environment and Planning Committee’s inquiry into rate capping. These are attached and outline the MAV’s concerns relating to the rate capping policy. In addition, the MAV CEO has also presented before the Committee on multiple occasions and has outlined our concerns relating to the potential effects of this policy on councils in the transcripts. We would be pleased to expand on the positions put through these documents if it is considered valuable by the Committee.

The MAV has expressed concerns that rural councils in particular will be adversely affected by the application of a rate capping regime on the sector. This is due in the first instance by their higher reliance on external revenue sources (such as FAGs), which do not move in line with council input costs and their limited ability to raise revenue through fees, fines and charges, which places greater emphasis on rate revenue. These councils also have a proportionately larger infrastructure responsibilities and the lack of scale economies influence their expenditures. We believe that the rate capping framework will ultimately result in a degradation of council assets, a greater risk of financial stress for these organisations, a narrowing of responsibilities over time in response to constrained revenue and less innovation in service delivery.

# Flood planning and preparation

## Statutory land use planning system, local government and catchment management authorities

Victoria’s statutory land use planning system operates through Planning Schemes. Planning Schemes set out policies and provisions for the use, development and protection of land. They are legal documents administered by the council or other planning authority specified in the Planning Schemes.

Council’s Planning Schemes must be prepared using the Victoria Planning Provisions (VPPs). The VPPs contain a comprehensive set of planning provisions for Victoria, including compulsory state and local policies and strategies, and zones and overlays used locally.

Melbourne Water and the CMAs are referral authorities under the Planning and Environment Act 1987. Under changes to the nature of referral authorities in August 2013, the CMAs became ‘recommending authorities’ while Melbourne Water remains a ‘determining authority’. Referral advice from a ‘determining authority’ is binding on the council as a responsible authority under the Planning and Environment Act 1987. Referral advice from a ‘recommending authority’ is not binding on the council.

While the Victorian Floodplain Management Strategy (VFMS), released in April 2016, identifies a total of 96 per cent of councils followed CMA advice provided as a recommending referral authority, we see value in CMA being reinstated as determining authorities to ensure their technical expertise is considered as part of the planning permit process and the management of development in the flood plain is not undermined.

## Flood studies and the role of Catchment Management Authorities

CMAs under their Statement of Obligations are responsible for preparing flood studies, unless alternative arrangements are brokered with the council. Councils are neither floodplain managers nor flood experts and rely heavily on CMAs to prepare flood studies to inform the application of the flood controls within their planning scheme. Flood studies are usually part funded by the Commonwealth, State and Local Government.

As identified by the Productivity Commission report on *Barriers into Effective Climate Change Adaptation,* the financial and technical capacity of councils is a major barrier preventing the planning system from reaching its full potential. With the preparation of flood studies and associated planning scheme amendments costing upward of $70,000, the availability of external funding sources needs to be addressed.

The $21.5 million announced with the release of the VFMS is expected to go some way to supporting councils. The MAV has previously advocated for a rolling flood planning assistance fund to assist both the CMAs and councils to provide access for CMAs to fund the expedited preparation of flood studies and associated planning scheme amendments for flood prone land that is not within an appropriate planning scheme overlay.

## Coastal flooding, coastal hazard assessments and mitigation responses

The Coastal Climate Change Advisory Committee (CCCAC) identified the need for a single statewide lead agency to be responsible for coordinating coastal hazard assessments along the coast and preparing and coordinating a mitigation response.

The current Victorian Government has made some progress in this area, with the VFMS and the Regional Coastal Plans identifying that DELWP will prepare Coastal Hazard Vulnerability Assessment for priority locations along the coast. It also identifies that CMAs will act as referral authorities for recommendations on land use planning where a council amends their Planning Scheme to show land subject to inundation caused by seawater.

What remains unknown is once the extent of the hazard is understood, which agency is responsible for funding and coordinating a mitigation response along Victoria’s coastline. The MAV believes that a single central agency is required to deliver a coordinated and multi – disciplinary and regional approach to mitigation and adaptation. This would provide holistic understanding of the implications of implementing flood mitigation measures further downstream or further along the coast. This may in turn identify cost saving opportunities and better resource allocation.

## Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure

The VFMS, outlines roles and responsibilities relating to floodplain management, including planning and preparation, and the management arrangements for flood mitigation infrastructure.

The MAV was a member of the VFMS Interdepartmental Stakeholder Reference Group and, in consultation with our members, made two submissions during the VFMS consultation rounds. The MAV also reviewed all council submissions.

The primary concerns of councils of relevance to this Inquiry were:

* the formal handover of decision-making around flood mitigation infrastructure (including levees) to councils and the associated liability, capital, maintenance and management costs;
* the responsibility of councils to pay for the cost of maintenance for river gauges used for flood warning; and
* the need to address barriers to planning scheme amendments (as outlined in the previous section).

Implementation of many of the policies outlined in the VFMS is in the very early stages. The VFMS identifies regional strategies as the means for identifying investment priorities, including gauges for flood warning, flood studies and new or existing flood mitigation infrastructure. In most cases the regional strategies are still in the inception stage. Until these strategies have been finalised it is likely to be too early to undertake a full analysis of the challenges for councils.

There are, however, some general comments that can be made about the shift in responsibility and likely consequences.

## Flood mitigation infrastructure

Chapter 17 of the VFMS outlines a new management and investment framework for large-scale flood mitigation infrastructure in regional Victoria.

The new policy for new large-scale flood mitigation infrastructure is as follows:

* *All new large-scale flood mitigation infrastructure outside Melbourne Water’s region will be implemented as Water Management Schemes under the Water Act 1989.*
* *The costs of designing and constructing new large-scale flood mitigation infrastructure that meets the government investment criteria will be shared equally between the Australian and Victorian Governments and the relevant LGAs.*
* *The maintenance and management of new flood mitigation infrastructure under formal arrangements will be funded by beneficiaries (through relevant LGAs) and will be subject to third-party auditing arrangements to ensure it continues to be maintained. (Policy 17a)*
* *New, large-scale rural flood mitigation infrastructure will only attract government funding if it satisfies the investment criteria outlined in the Strategy (Policy 17b)*

Councils (outside Melbourne Water’s region) are accountable for:

* *leading the processes to determine and implement new flood mitigation infrastructure, through flood studies and Water Management*

*Schemes*

* *the ongoing maintenance and management of new infrastructure through flood studies and Water Management Schemes (Accountability 17a)*

The new policy for existing large-scale flood mitigation infrastructure is as follows:

**Policy 17c**

* *Flood mitigation infrastructure outside Melbourne Water’s region that is not currently subject to formal management arrangements will remain that way unless the relevant LGA (through a Regional Floodplain Management Strategy or local assessment) determines that the infrastructure should be brought into formal management arrangements through a Water Management Scheme or other appropriate arrangements.*
* *The costs of restoring or upgrading existing flood mitigation infrastructure to bring it into formal management arrangements will, if it meets the government investment criteria (Section 17.2), be shared equally between the Australian and Victorian Governments, and the relevant LGAs.*
* *The maintenance and management of existing flood mitigation infrastructure under formal arrangements will be funded by beneficiaries (through relevant LGAs) and will be subject to third-party auditing arrangements to ensure it continues to be maintained.*
* *Where there is flood mitigation infrastructure that is not being formally managed:*
  + *the relevant Municipal Planning Scheme must not assume that the infrastructure will provide flood protection*
  + *the relevant Municipal Flood Emergency Plan must provide for the potential for sudden and complete failure of that infrastructure. (Policy 17c)*

Councils (outside Melbourne Water’s region) are accountable for:

* *leading the processes to determine and implement, through flood studies and Water Management Schemes (where appropriate), the assessment of existing flood mitigation infrastructure necessary to meet the needs of their communities, taking into account economic, social, cultural and environmental issues; and*
* *the ongoing maintenance and management of existing infrastructure under formal management arrangements. (Accountability 17b)*

The MAV and many of the councils are concerned that under the new arrangements, local government will bear much of the decision-making responsibility for flood mitigation infrastructure, and with it the cost and risk burden, and associated liabilities.

Some councils will inherit large-scale infrastructure, including levees, which they have not previously constructed, managed or maintained. Councils will be required to make decisions about upgrading, decommissioning or leaving them unmanaged.

The VFMS states that there are 32 existing urban levees, 12 of which are already being managed through Water Management Schemes.

Through the VFMS process, the MAV identified 22 rural or regional municipalities with at least one urban levee. Around half of these councils are actively managing the levee/s and a number have been established recently in consultation with the affected community. For these councils, the new policy should not create significant challenges, although they will have to ensure management is consistent with the DELWP Levee Management Guidelines (2015).

In other cases, councils will be expected to take responsibility for former State assets, some of which were built with inferior materials and require virtual reconstruction to return them to design standard. Flood studies and audits of the levee condition are required to understand the full cost implications.

In 2014, the MAV sought cost estimates from councils already managing urban levees as well as those that have an urban levee but are not currently managing it. The data available on the unmanaged levees was not reliable because an audit of the levee had not been undertaken. In many cases, councils were not in a position to provide estimates.

*Beneficiary pays principle*

The VFMS states that the ‘beneficiary pays’ principle will determine the management and funding arrangements for flood mitigation infrastructure into the future (VFMS page 67).

The MAV’s initial analysis indicates that the future funding of urban levees through general rates would require around half the expected allowable rate increase under the capping framework for come councils and for others it would exceed the cap.

Alternatively, the council’s share of reinstatement costs, and the ongoing maintenance, could be funded via beneficiary charges limited to property owners in the direct vicinity of levees. However, the data suggest that, given average block sizes, these charges may be significant. Additionally, given the costs involved, relatively high numbers of properties may be required to keep charges at an acceptable level.

The VFMS states that flood studies, new flood mitigation infrastructure and restoration of existing levees will be funded through equal contributions from Australian, State and local government where there is public benefit and the rest of the investment criteria are met (pp67-68). However, there is no ongoing commitment from the Commonwealth to the Natural Disaster Resilience Grants Scheme, the scheme from which the Commonwealth’s one-third contribution is expected to come from. Further, even if this scheme continues, it is a limited pool of funds, and it will be many years before upgrades to existing urban (and potentially some rural) levees, as well as flood studies and proposed flood mitigation infrastructure can be funded.

The MAV believes that the following should be incorporated into the framework:

* If a flood study demonstrates significant upgrades or reconstruction are necessary to protect an urban environment, the required funding should be provided to the council as a matter of priority.
* At a minimum, a hardship clause should be considered for financially stressed councils that cannot afford the one third contribution to the study and upgrade.
* Where the structure was originally built by the State, a further State contribution towards upgrades or reconstruction is necessary.

It’s the MAV’s understanding that the money announced through the VFMS will cover the State’s contribution, not the council contribution.

*Liability concerns*

The MAV has requested consideration of limited immunity where councils have exercised a reasonable level of care or acted in good faith in the exercise of their functions involving water management.  This is detailed below.  However, if an immunity is not to be provided it is considered that amendments should be made to the Water Act liability provisions so that Councils are treated in the same way as Water Authorities.

Currently, under s16 of the Water Act councils have strict liability for any unreasonable flow or unreasonable interference in the flow of water that causes loss or damage.  Section 16 does not require the councils’ negligence to have resulted in the flow of water or interference in the flow of water.  This is in contrast to the liabilities water authorities have under s157 of the Water Act, which requires the flow of water or interference in flow of water to have been caused by the intention or negligent act of the Authority.

The MAV has commenced discussions with the Department of Environment, Land, Water and Planning to re-consider making legislative changes to align councils’ liabilities with those of water authorities, in preference to considering changes only for infrastructure related to Water Management Schemes.

Action 17b of the VFMS addresses the liability framework for Water Management Schemes. It states that *DELWP will prepare, for government consideration, a proposal to amend the Water Act 1989 to clarify and simplify the liability and assurance arrangements for LGAs when they construct or maintain flood mitigation infrastructure through the implementation of Water Management Schemes.*

The intent is to align the level of protection of councils to that of water corporations.

The MAV argued in its VFMS submissions that if the State is not inclined to consider an immunity under the Water Act for councils when they implement a Water Management Scheme, a policy defence should be provided under the Act.

The proposed policy defence could be similar to that provided in section 103 of the Road Management Act for councils when they comply with their Road Management Plans. However, it would need to be altered to take into account that the councils do not approve Water Management Schemes as they do Road Management Plans. Rather, Water Management Schemes are created by a Committee, which may include the council, and are ultimately approved by the Minister. Therefore, the policy defence should only require the council act reasonably and in good faith in implementing the Scheme, rather than that the requirements under the Scheme be reasonable.

The changes to liability could specifically identify matters to be considered in determining whether the council has acted reasonably or in good faith. Factors that could be considered may include:

* whether a council has inherited the responsibility for the levee and if so the standard of the levee at the time it became a council responsibility;

* whether a council’s actions were for public interest;
* powers and authorities available to local government; and
* resources available to a council.

## Stream gauges

Accountability 16a of the VFMS states *that LGAs are accountable for the maintenance of those stream gauges whose sole purpose is to serve as an element in a Total Flood Warning Service (page 63).*

At the time of MAV’s submissions to the VFMS, there were around 15 councils that were members of Regional Water Monitoring Partnerships – mainly in the Hume and Gippsland regions. Through these partnerships, councils contribute to the flood warning maintenance component of gauges. Councils that are members of partnerships report satisfaction with the arrangement, although several expressed concern about the sustainability of this arrangement in a revenue-constrained environment.

A number of the councils that made submissions to the VFMS or responded to the MAV’s consultation process expressed concern about the proposal because councils do not have an operational role in providing warnings. They considered it to be a transfer of a state asset and a further example of cost shifting.

# Maintenance of local road and bridge networks

Local government has responsibility for 129,735 kilometres of Victoria’s road network, representing 85 per cent of the Victorian road network, and 10,500 bridges and culverts. A vast majority of these roads and bridges are found within rural and regional communities and in total the sector spent around $885m on local roads and bridges in 2014-15. The following table provides an overview of the road lengths by council type. This indicates that in general, rural councils are responsible for greater absolute road length. On a per head basis, the difference in road responsibilities will be even starker.

Figure 2: Road length by council type, 2014-15

Source: VGC data

It has long been acknowledged that the extent of infrastructure in rural and regional areas created significant financial demands for these councils. The following table provides data on the road length of individual councils and the per head expenditure.

|  | **Council type** | **Total** | **Local Roads expenditure per head of population** |
| --- | --- | --- | --- |
| **Alpine (S)** | Rural | **597** | **253** |
| **Ararat (RC)** | Rural | **2,380** | **1,019** |
| **Ballarat (C)** | Rural | **1,388** | **312** |
| **Banyule (C)** | Metro | **547** | **82** |
| **Bass Coast (S)** | Rural | **940** |  |
| **Baw Baw (S)** | Rural | **1,982** | **317** |
| **Bayside (C)** | Metro | **354** | **139** |
| **Benalla (RC)** | Rural | **1,348** | **256** |
| **Boroondara (C)** | Metro | **564** | **50** |
| **Brimbank (C)** | Metro | **894** | **118** |
| **Buloke (S)** | Rural | **5,313** | **1,003** |
| **Campaspe (S)** | Rural | **4,034** | **381** |
| **Cardinia (S)** | Metro | **1,482** | **109** |
| **Casey (C)** | Metro | **1,563** | **82** |
| **Central Goldfields (S)** | Rural | **1,269** | **531** |
| **Colac Otway (S)** | Rural | **1,623** | **631** |
| **Corangamite (S)** | Rural | **2,370** |  |
| **Darebin (C)** | Metro | **509** | **49** |
| **East Gippsland (S)** | Rural | **2,951** |  |
| **Frankston (C)** | Metro | **699** | **87** |
| **Gannawarra (S)** | Rural | **2,272** | **628** |
| **Glen Eira (C)** | Metro | **483** | **48** |
| **Glenelg (S)** | Rural | **2,630** | **466** |
| **Golden Plains (S)** | Rural | **1,921** | **290** |
| **Greater Bendigo (C)** | Rural | **3,097** |  |
| **Greater Dandenong (C)** | Metro | **670** | **49** |
| **Greater Geelong (C)** | Rural | **2,118** | **218** |
| **Greater Shepparton (C)** | Rural | **2,497** | **276** |
| **Hepburn (S)** | Rural | **1,425** | **637** |
| **Hindmarsh (S)** | Rural | **3,177** | **647** |
| **Hobsons Bay (C)** | Metro | **451** | **114** |
| **Horsham (RC)** | Rural | **2,975** | **635** |
| **Hume (C)** | Metro | **1,191** | **119** |
| **Indigo (S)** | Rural | **1,567** | **390** |
| **Kingston (C)** | Metro | **704** | **38** |
| **Knox (C)** | Metro | **721** | **71** |
| **Latrobe (C)** | Rural | **1,568** | **269** |
| **Loddon (S)** | Rural | **4,721** | **1,191** |
| **Macedon Ranges (S)** | Rural | **1,661** | **185** |
| **Manningham (C)** | Metro | **599** |  |
| **Mansfield (S)** | Rural | **804** | **864** |
| **Maribyrnong (C)** | Metro | **344** | **35** |
| **Maroondah (C)** | Metro | **476** | **75** |
| **Melbourne (C)** | Metro | **214** | **236** |
| **Melton (S)** | Metro | **1,026** |  |
| **Mildura (RC)** | Rural | **5,097** | **208** |
| **Mitchell (S)** | Rural | **1,473** | **140** |
| **Moira (S)** | Rural | **3,654** | **319** |
| **Monash (C)** | Metro | **736** | **55** |
| **Moonee Valley (C)** | Metro | **419** | **96** |
| **Moorabool (S)** | Rural | **1,503** | **258** |
| **Moreland (C)** | Metro | **519** | **92** |
| **Mornington Peninsula (S)** | Metro | **1,707** | **145** |
| **Mount Alexander (S)** | Rural | **1,449** | **323** |
| **Moyne (S)** | Rural | **2,744** | **733** |
| **Murrindindi (S)** | Rural | **1,202** | **321** |
| **Nillumbik (S)** | Metro | **775** | **130** |
| **Northern Grampians (S)** | Rural | **3,355** | **704** |
| **Port Phillip (C)** | Metro | **215** | **57** |
| **Pyrenees (S)** | Rural | **2,029** | **884** |
| **Queenscliffe (B)** | Rural | **43** | **420** |
| **South Gippsland (S)** | Rural | **2,087** | **553** |
| **Southern Grampians (S)** | Rural | **2,761** | **525** |
| **Stonnington (C)** | Metro | **340** | **97** |
| **Strathbogie (S)** | Rural | **2,243** | **1,089** |
| **Surf Coast (S)** | Rural | **1,106** |  |
| **Swan Hill (RC)** | Rural | **3,492** | **399** |
| **Towong (S)** | Rural | **1,183** | **731** |
| **Wangaratta (RC)** | Rural | **1,949** | **252** |
| **Warrnambool (C)** | Rural | **328** | **265** |
| **Wellington (S)** | Rural | **3,022** | **357** |
| **West Wimmera (S)** | Rural | **2,809** | **1,410** |
| **Whitehorse (C)** | Metro | **598** | **49** |
| **Whittlesea (C)** | Metro | **1,245** | **100** |
| **Wodonga (C)** | Rural | **500** | **240** |
| **Wyndham (C)** | Metro | **1,309** | **365** |
| **Yarra (C)** | Metro | **215** | **182** |
| **Yarra Ranges (S)** | Metro | **1,748** | **164** |
| **Yarriambiack (S)** | Rural | **4,790** | **1,159** |

Source: VGC data; includes capital and maintenance expenditure on roads and bridges .Expenditure of zero reflects missing or incorrect data.

These data indicate that the per head expenditure on roads is greater on average for rural and regional councils ($298 per head versus $100 per head).

The annual asset renewal gap for Victorian councils was estimated to be $225.3 million in 2012 with the cumulative asset renewal gap predicted to grow to almost $2.3 billion by 2027.

Changes in policy direction at both a Federal Government and State Government level have and will continue to affect the capacity for local government to maintain the local road and bridge network.

The freezing of the indexation of the Federal Government’s Financial Assistance Grants will affect all Victorian councils, with an estimated to be in excess of $70 million loss in 2016-17. Rural councils will feel the greatest effects with these grants previously making up to 31 per cent of a council’s revenue. While this has been offset to some extent by the increase in Roads to Recovery Funding, in the long-term there will be ongoing funding shortfalls for rural councils when the additional funding concludes.

The State Government’s rate capping policy will also reduce the capacity for councils to deliver greatly needed infrastructure maintenance and development. Previous implementation of rate capping policies in Victoria and New South Wales produced the unintended consequence of councils not having the ability to maintain the local government road network.

A disjointed and short term approach to infrastructure planning at a Federal and State level has greatly impacted the infrastructure network in Australia, as well as our capacity to plan for the renewal and provision of new infrastructure into the future. There has also been a significant gap in planning for and delivering regional level infrastructure. Local government has been attempting to fill this gap.

This has taken its toll financially and for councils, the most capital intensive infrastructure provider of all levels of government, the asset renewal gap to maintain existing infrastructure is a constant challenge. This has the capacity to create serious issues for local infrastructure in the future, damaging the overall quality of the infrastructure network and potentially reduce Victoria’s economic competitiveness.

# Roadside weeds and pests

Another example of the state directly and adversely affecting councils was the decision in 2013, despite opposition from local government, to pass legislative amendments to make councils responsible for weed and pest management on a number of roadsides. State funding for councils to discharge this duty has been inadequate and allocated on short-term bases only, hindering council efforts to establish long-term plans with key non-government partners. Furthermore, the State has failed to undertake sufficient compliance and enforcement activity for weed and pest management on private land, frustrating the efficacy of management activity undertaken by adjoining land holders, including councils.

The MAV and councils have advocated for secure long-term funding for roadside weed and pest management activity ever since the legislative changes, but successive State governments have ignored the calls instead offering one or two year programs. It’s a frustrating state of affairs for councils and their communities.

# Conclusions

There is very little doubt that the operational environment for rural and regional councils is particularly challenging and is the most difficult since the major reform period of the mid-1990s.

There are structural factors affecting the ability of rural and regional councils to provide necessary services to their communities and the funding models for the sector have developed over time to attempt to ameliorate this to some extent. Despite this, the combination of Federal and State policies is having a negative consequence on councils. The primary issues are:

* The FAGs freeze, which has greatest effect on rural councils
* Rates capping
* Inadequate funding for a range of council services
* The cumulative consequences of increased regulatory requirements, failure to index funding programs and increased reporting requirements

The major concern of the MAV is that the current range of policies in place will have a long-term consequence on the sector. It is highly likely that the long-term effects of the current policy context will be a reduction in the services rural councils provide to their communities, a reduction in the provision of new and innovative and the likelihood that councils will be unable to maintain and renewal their infrastructure responsibilities, with serious and long-term consequences.

These issues will ultimately affect the fairness of service provision into rural and regional areas and the key question for the state is whether it supports policies and regulatory frameworks which will increase the relative disadvantage of rural communities over metropolitan communities.

# Appendix 1: Rating Fairness

## Fairness, Equity and Adequacy of Rating Systems

Generally, the issues concerning the fairness, equity and adequacy of rating systems are no different for regional and rural councils than all councils although there are specific aspects of these issues that may be of more interest. The main issues relate to:

* community perceptions of rates;
* the inherent difficulty in defining equity and using land taxes to achieve equity objectives;
* the expectations of ratepayers, and in particular, the influence of interest groups; and
* the rating framework, including the relevant legislation that controls the actions of councils.

## Importance of Rates

Rates are an extremely important component of council revenue. Rates account for more than 40% of underlying revenues in the vast majority of councils with average and median levels of about 59%.

While rates represent a larger proportion of the total underlying revenues of non-rural and non-regional councils, they account for a significantly higher proportion of internally-generated revenues of councils. When discounted for recurrent grants rates generally account for a significantly higher proportion in rural and regional councils. This reflects the limitations on these councils, rural councils especially, of generating income from alternative sources such as user charges.

## Community Perceptions of Rates – A Public Attitude Bias

The MAV argues that council rates, in particular, when compared with other taxes and charges are a soft target and that ratepayers under-estimate the “value for money” they receive from their rates. Including Commonwealth income collections, there are no other taxes used to fund such a plethora of services. The role that councils play includes the provision of a wide range of public services which are predominately and most appropriately funded from rates.

Most residents who raise the question “what do I get from my rates” think in the limited terms of what they actually see and use and not the wider community spending and investment that benefits society. In practice they tend to take a narrow and segmented view that focuses on a weekly rubbish collection or areas where they may encounter a specific problem and they are largely unconscious to benefits they receive but which are less obvious. It is considered likely that if put to them they favour things like the need for public safety, public open space, traffic management and arts and cultural events. These items are not free.

Overlaying this is the fact that rates are the most visible of taxes. They tend to be the largest single bill encountered by households in the mail, lumpy, either requested quarterly or by single instalment. They are argued to be excessive. However, if they were to be compared with the aggregate value of other bills, say for example the suite of utilities consumed or insurances required by a household, the perception would be different.

The ABS Household Expenditure Survey consistently shows that council rates are a relatively small item. For example data show consistently that rates generally account for less than 2% of household spending - less than what is spent on alcohol and holidays and similar to what is spent on tobacco. Over 3% is spent on electricity, gas and water.

The public also generally does not understand the rating process, in particular:

* the propensity for valuations to fluctuate widely;
* that valuations do not determine the quantum of revenue raised, rather the distribution of the burden across ratepayers; and
* the differing impacts of the rating instruments that are used which dilute the valuation effect.

This results in invalid comparisons being made that feed a view that rate payers are not being treated fairly or that councils are costing too much. While greater education has been an objective of councils the fact is that it is a complex area and most people are not able or willing to take the time to understand.

## Equity and Using Land Taxes to Achieve Equity Objectives

The fundamental principles involved in considering the equity of rating systems are the principles of wealth tax, benefit and capacity to pay.

### Wealth Tax Principle

Local Government does not have access to income tax or indirect taxes like the Commonwealth and State Governments. It is limited to property taxes with which to tax wealth. Wealth may be considered in terms of financial assets and non-financial assets. Local government is limited to taxing one component of wealth – real property. Council rates are a tax on the stored “wealth” or unrealised capital gains inherent in land and buildings. They are also a tax on the gross value of real property wealth rather than a tax on real property equity.

The “wealth tax” principle implies that the rates paid are dependent upon the value of a ratepayer’s real property and have no correlation with the individual ratepayer’s consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

Data indicate that home equity is the largest contributor to household wealth. The fundamental issue with respect to housing wealth is the extent to which property values i.e. council valuations, directly reflect net worth. There may be some logic to the proposition that, on balance, this would be the case given that affordability considerations influence purchase decisions, more highly-valued homes are purchased with higher deposit requirements and redemption amounts on them are higher for any standard loan terms.

Data on gross household income and dwelling CIVs plotted at Census Collection District level can be plotted give an idea of correlation between regional income and housing wealth. The data show a trend that as gross household incomes increase so too do dwelling values, although the predictive value of the relationship is not particularly strong. However, this provides some general support for the notion that there is a greater ability for higher valued properties to pay rates because they tend to be occupied by households with greater income.

### Benefit Principle

Reconciling the rating burden with benefit is problematic. The analysis of benefit is often reduced to arguments of what services are consumed by different classes of property (such as residences, farms and businesses) and between towns. A simplistic determination of rates based on where services are located ignores the fact that:

* some services are not location specific;
* access is not synonymous with consumption;
* residents can travel or use technology to access many services;
* benefits are consumed by ratepayers in differing quantities over their lives; and
* perhaps more significantly, service levels provided in different locations within a municipality have different costs. For example, the actual cost of providing the same or a lesser level of service to a more remote or less central location may be higher when calculated on a per head or per assessment basis due to economies of scale or logistical reasons.

Proponents of the wealth tax principal would argue strongly that property value already incorporates benefit because things like better roads, street lighting and proximity to council facilities translate into higher property prices and hence the valuation used for rating purposes. In some ways the arguing of the benefit principle with respect to council rates is like trying to do the same for income tax that is used to fund a wide range of universally accessed services. It is likely to be quite costly to undertake in-depth analyses regularly on service access, consumption patterns and costs in an attempt to review the level of benefit. In any event many subjective assumptions will have to be introduced. Taken to its logical extreme it would be very complex and onerous to use this approach over all council expenditures at activity level. It would require identifying the range and types of beneficiaries and involve a detailed annual allocation of council’s budget.

The relationship between the level of rates paid can only be presumptive and crude. In the final analysis the level of rates paid is directly linked to property value not the volume or quality of services consumed. Given situations where benefit can be attributed accurately to consumers based on consumption, user charges are a more appropriate instrument to use as long as related collection costs are not prohibitive.

It is more practical to limit the benefit principle to assess the rating burden where the expenditures that benefit each class of property are more limited and clearer. In such cases the use of more targeted instruments like special rates and charges are more appropriate, for example with respect to private street schemes.

### Capacity to Pay

A council may determine that results from the application of the wealth tax and benefit principles would lead to outcomes where property classes and individual ratepayers would have difficulty meeting their obligations because of their capacity to pay rates. A fundamental issue is that any departure from a uniform (pure wealth tax) system requires making assessments about factors that are not necessarily related to property type and applying them to a property-based system.

### Whose Capacity to Pay? – The Incidence of Rates

An issue councils face in assessing “capacity to pay” relates to the landlord-tenant relationship and the fundamental distinction between who is legally liable to pay rates and the economic incidence of rates. The economic incidence of rates reflects who ultimately bears the cost of rates through higher prices, lower wages or lower returns on assets. Liability for rates exists with property owners. Hence council is required to assess fundamentally the capacity to pay of the property owner and not the tenant, although council may legitimately have concerns for the latter. Property owners are not just individuals but individual investors represented by superannuation funds, insurance companies, property trusts, banks and other financial institutions.

Economic theory argues that property taxes have negligible effects on the rents that properties can earn because rent is determined by the demand of actual and potential users against a fixed land supply. Therefore even if increased taxes were passed onto renters via increased rents, this would lead to reduced demand for these properties and as a result push rents back down.

In response to this it could be argued that:

* this theory ignores the potential for landlords to pass on costs during periods where rental markets are tight (local data tend to show that vacancy rates for residential rentals are low in historical terms);
* markets are not perfect and may take considerable time to adjust;
* rental needs are not homogeneous;
* people have special reasons for wanting to (ties to) live in a certain house/area, e.g. because they need to live close to a relative, convenient to schools and services;
* there are often strategic, logistic and other important factors such as visibility and location why businesses are committed to a particular premises;
* rental agreements for business premises may be entered into for a number of years that often specify that tenants are responsible for all outgoings including rates;
* businesses may have considerable investments in terms of fixtures and plant that have been added to rental premises;
* where renters elect to move because rents have become too expensive they will still incur search and relocation costs.

### Who Are the Most Financially Stressed People in the Community?

Data show that single elderly persons, particularly females, who are renters are the most financially stressed of all households and that non-elderly couples without dependent children at the top of the rankings of equivalised household disposable income.

Various reports have identified groups that are particularly at risk of poverty due to a combination of inadequate income, a lack of other resources, and/or particularly high essential living expenses which leaves them particularly vulnerable to increases in costs of living and crises because they are less likely to have ‘safety net’ resources such as insurance or money set aside for an emergency. Those commonly identified under most pressure include:

* unemployed people, particularly singles and long-term unemployed;
* sole parents, particularly women;
* pensioners particularly single/living alone;
* indigenous people;
* young people living without the support of family; and
* people with a disability.

The HILDA surveys note the clear evidence that sole parent families typically experience much more financial difficulty than either couple or single households.

With the exception of aged pensioners, the preceding groups are represented largely as renters rather than home owners. Arguably because they are property owners, aged pensioners often receive special attention.

**3.6 The Issue of Diversity**

There is no way of getting around the fact that despite the “likeness” of members of property classes, there will also be considerable diversity. There is considerable diversity in the economic circumstances of households to pay rates related to household income, the number of breadwinners and members, expenditure patterns and debt levels.

Similarly, enormous diversity exists within business – local businesses range from small businesses with owner operators and few employees to multinational corporations. They may take a variety of forms – sole operators, companies, partnerships, cooperatives and trusts. Production may cover a diverse range of goods and services for local, national or overseas markets. They may vary considerably in terms of turnover, net worth, profitability and gearing – just to name a few characteristics. Businesses may be “price takers” with little market power or “price makers” operating in oligopolistic markets.

A perception of size and market power might be considered relevant. For example, size and form of company (e.g. large, multinational) may confer economic advantages over other businesses and industries in terms of their capacity to pay by virtue of the benefits of:

* vertical and horizontal economies of scale;
* market power – including the ability to negotiate favourable prices on key inputs e.g. energy and the ability to shift rates to consumers through prices;
* greater potential for expanding output, reducing unit costs and increasing market share;
* the ability to minimise tax through transfer pricing;
* greater ability to access new technologies and methods;
* the ability to spread overheads and risk, for example the pooling of insurance requirements;
* the ability to raise capital at cheaper cost;
* greater ability to merge and acquire other entities;
* greater potential for the sale of assets, including the sale of non-core downstream business;
* the formation of beneficial strategic alliances with other businesses;
* a greater ability to adapt to economic shifts than corporations that function in a single locality;
* a greater ability for diversification and integration of other activities; and
* a lesser chance of going bankrupt than smaller companies.

Rate setting for different groups needs to have regard to the general capacity of those classes of property to pay rates. There are practical limits to the extent that classes may be differentiated because of impacts on efficiency and simplicity – and the broader a property class, the more general are the assumptions about capacity to pay. Some may argue, for example that a small family farm producing for a local market has more in common with other small business than large farms. Clearly, there is an issue of how well the assumptions made about a large class of ratepayers accurately reflect the circumstances of most or large numbers of its members.

### How Difficult is it to Assess Capacity to Pay?

Historically, councils have used the term capacity to pay as a primary argument in the setting of varying rates. There has, however, been a lack of transparency concerning the basis for the views held about capacity to pay and their translation into a hierarchy of rates. More often than not substantive and evidence-based reasons have not been provided why the rate in the dollar on one type of property is higher/lower than another (or for that matter why a uniform rate system exists) or to explain the basis for the difference.

On equity and good public policy grounds, it is appropriate that the meaning and assessment of capacity to pay is agreed, at least from a practical point of view, and that decisions are influenced by a strong understanding of the factors relevant to particular property classes in order to make informed, albeit, generalised observations about their capacity to pay rates.

Capacity to pay can be assessed in different ways. This raises the issue of what specific measure or indicators best reflect capacity to pay, their availability and whether they could be applied consistently across all ratepayers/ property classes.

Critics of property taxation draw attention to its limitation in recognising the situation where ratepayers are “asset rich” and “income poor”. It is argued that in these cases ratepayers may have considerable stored wealth in the property they own but have a low level of income and therefore a low capacity to pay rates. The position of pensioners is often raised in relation to this. On the other hand, attention has been increasingly drawn to the significant levels of unrealised wealth in low income households that could be accessed to pay for services, for example, the Productivity Commission in relation to the aged care costs.

It could be argued that elevating the importance of the “disposable” income of households takes a limited view about capacity to pay. The aged pensioner with very little disposable income but a very expensive house is a good example. Modelling can be used to illustrate the weaker financial position of households with different income and housing wealth profiles. It is difficult to argue that an aged pensioner who owns a substantial property has a lower capacity to pay their rates than a single income family including a couple of children on average weekly earnings and with a substantial mortgage on a modestly valued home[[4]](#footnote-5). This ignores housing wealth.

Such examples show the difficulties of making assumptions and generalising about the capacity of groups to pay rates. A number of related issues exist. The sustainability of providing any additional assistance to aged pensioners over the long term should be seen in the context of the ageing of the population. The inter-generational issue may a relevant one to consider – it could be argued that the ultimate beneficiaries of pensioner rate subsidisation are children of these ratepayers at the expense of other current ratepayers. Attention might also be drawn to the mismatch of accommodation requirements and housing assets in times of lack of housing supply and reduced housing affordability with pensioners living in premises far larger (and more valuable) than they require.

It might be argued that resistance to the accessing of wealth to pay rates has more to do with cultural attitudes than capacity to pay. These cultural attitudes are reflected in views that pensioners’ homes are where they raised their kids and lived most of their lives, that houses have many memories for them and having to move would be extremely emotionally difficult. There is also a strongly held view that all that some pensioners have to pass onto their families is through inheritance and that is why they sacrificed and saved over the years. However, the image created of age pensioners being forced to sell homes in order to pay council rates is an emotive one that arguably has little to do with reality.

One issue that has gained attention is the higher interest rate applicable to reverse equity products compared with home loan rates, particularly given the level of security offered by the borrower, however the differential between these products and other loan rates appears to have narrowed more recently.

It is not possible to expect a property tax system to deal practically with the issue of capacity to pay based on the circumstances of individual households and businesses. In fact the issue takes up considerable time and resources of Governments with more diverse taxing and investigative powers and resources.

### Data Issues

This challenge of giving effect to capacity to pay is not assisted by the data that is available to councils.

Ideally, the best data to be used in considering capacity to pay is that which relates to the municipality. However data may not be available at council level. For example, data on a whole range of aggregates and ratios for business sectors are obtainable for Australia and the States, but how well do these reflect the situation in Local Government Areas?

More tends to be known about income than wealth at a local level. Income and wealth data are available from the ATO sourced from tax returns, the ABS Census of Population and Housing and Industry Surveys. The ATO provides data on personal income at a postcode level and business income at a national and industry level. The ABS provides personal and household income data at small area levels but business data is also generally provided at broad industry, State and national level.

Data is lagged. Differences between the dates to which data relate and when data becomes available may be considerable. For example census data, other Australian Bureau of Statistics (ABS) publications and ATO data may be several years out of date by the time it can be used. Consistency with the date of property (re)valuation may be highly desirable. Census data may be up to five years old.

Although less an issue, inconsistencies may exist between data sources. Changing definitions and methodologies and survey populations, differences in sampling errors and incomplete time series and discontinued statistics may pose difficulties. Inconsistencies may also show across data sources.

Improvements that may be made to council databases would also assist the process, for example, filters that allow the aggregation of farm assessments into respective farm enterprises.

### Fixed Charges

The concept of vertical equity is reflected in whether tax systems are progressive, proportional or regressive. It has been argued that a regressive tax regime is least defensible on the basis of capacity to pay. To the extent that one accepts a nexus between property value and income and wealth, fairness would dictate that progressive taxation is favoured over proportional taxation, which in turn, is favoured over regressive taxation.

Fixed charges reduce the importance of the property valuation in determining the amount of rates paid. They are regressive by nature - as the value of properties decrease the amount of revenue raised from them increases as a percentage of that value. As a result, the burden is reduced on higher value properties. The percentage of total rate revenue paid by each individual property or each class of property is no longer identical to its percentage of total property valuation as is the case with a uniform or differential rate.

Fixed charges like the municipal charge available to councils add to the regressivity of tax systems. It results in a greater “compression” of rates bills by reducing the extent of differences in the amounts of rates payable across the range of properties within a municipality. The municipal charge results in greater similarity in the rates payable by dissimilarly valued property.

Properties of relatively higher value benefit from the application of the municipal charge. The impact of the municipal charge is property specific rather than class specific. Municipal charge outcomes for classes will reflect the extent to which higher-valued or lower-valued properties are more concentrated in a particular class.

For each combination of municipal charge and rate in the dollar there will be break-even property value. Break-even values can be calculated for every combination of rates and/or municipal charge because relationships are linear. All other things being equal, properties above the break-even value are favoured by the application of (increase in) the municipal charge while properties below this value are worse off.

The frequency distributions of broad property classes are likely to include a complement of both high and low-valued properties and therefore comprise properties for which the effect of the municipal charge may be favourable or unfavourable.

## The Rating Framework

The Local Government Act determines who can be rated and how they can be rated. It positively discriminates in favour of certain groups by providing exemptions for certain classes of property and sets out the armoury of instruments that may be used to spread the burden across ratepayers including the valuation base, ad valorem rates and fixed charges. A number of controls are placed with respect to these namely;

* the valuation base that may be used (three choices) ;
* the type of ad valorem rates that can be used dependent on the base chosen and the range of these from highest to lowest (the highest can be no more than 4 times the lowest); and
* the option to use a fixed charge component (the municipal charge) and the limit applicable to this component (up to 20% of the total from ad valorem rate plus the municipal charge).

The choice between valuation bases is between two improved bases - the full value including land and all improvements [Capital Improved Value] or the net annual rental value [Net Annual Value] and an unimproved land only base [Site Value].A strong argument can be made for the use of CIV as the most equitable of these as it includes the full value of the property and therefore more closely reflects financial capacity. The Legislation limits access to differential rates to those councils using the CIV base.It is assumed that the favouring of CIV is reflective of a general view about it being more equitable in combination with the greater flexibility offered – all councils use CIV except the few using NAV.

### Rating Exemptions

The Local Government Act specifically exempts certain land from paying rates including land that is exclusively used by RSL and other Services Clubs and for mining purposes.

#### Services Clubs

Most major regional centres have services clubs of one form or another including RSLs. The non-rateability of services clubs is one that concerns many councils in terms of equity as they compete with restaurants, cafes, hotels, gambling establishments and other businesses in the hospitality sector. There appears no valid reason why these clubs should be treated any differently to similar businesses and at least on the same terms as those classifiable as cultural and recreational lands that can be offered rate relief on the basis they also provide some level of community benefit (either recreational, cultural and/or social).

#### Mining

Mining is an industrial activity that takes place predominantly in rural and regional areas.

Mining is subject to rates in all other States and Territories. It is largely unfettered in all States[[5]](#footnote-6) with the exception of WA where it applies only in respect of certain improvements including permanent accommodation, recreation and administration facilities, and maintenance workshops within 100 metres of these facilities.

The rationale for the non-rateability of mining land in Victoria is unclear – whether it arises because it may involve large tracts of land, because it may be highly capital intensive where land values are low and extraction, conveying and crushing plant may be substantial or some “throwback” to providing encouragement for gold exploration.

Councils have responsibility for the equitable imposition of rate and charges. This is prejudiced by the exclusion of mining land, particularly given the demands mining places on local infrastructure in depreciating local road assets and pressure on services arising from demographic and population changes. Mines also operate for private profit. The fact that mining operations generate State royalties or that mining is undertaken on Crown Land, is irrelevant to the costs being borne by local governments and because other crown lease tenants are generally liable.

The non-rateability of mines in Victoria is also inconsistent. While the State Government continues to provide exclusions to some private operations including rail freight and passenger transport because of their deemed “public purpose”, the exclusion is believed to have been removed for gas pipelines. The contradictory approach of the State Government is also exampled with respect to electricity where it provides a legislated arrangement where electricity generators either pay rates or opt to make a payment in lieu of rates according to a specific formula. As coal mining forms a significant part of the operation of electricity generators it may be interpreted that (coal) mining is already being indirectly taxed in some instances in Victoria. Ironically, the State Government is largely unfettered in its taxing of coal mines having trebled Victoria’s Brown Coal Royalty rate on the basis of bringing the rate into line with other States (NSW, Queensland, and Western Australia).

Capital intensity, in itself, should not be regarded as a rationale for the exclusion of mining. There are numerous industrial operations run for private profit that comprise significant plant. In a number of councils such operations attract higher rates. It is difficult to see how the argument differs.

Given the above, and the likelihood of growth in mining arising from coal-seam gas and other activity, the State should consider making mining land rateable (one could reason to “bring it in line with other States”) or ensuring some form of payment in lieu of rates as in the case of electricity generation. The fact that the Ministerial Guidelines on Differential Rating do not preclude “extractive industry” confuses the issue.

### Special Arrangement for Electricity Generation

The ability to levy rates with respect to electricity generators is also subject to regulation.

Preferences for gas fired generators being located in closer proximity to consumers, expected increases in the number of windfarms and power generation plants based on other renewable technologies means that there will be many smaller developments affecting an increasing number of councils in the future. Windfarms in particular tend to be a rural phenomenon.

The Electricity Industry Act 2000 and related Orders in Council associated with S.94 provide that councils may either enter rating agreements with electricity generators or pay rates based on a fixed base amount plus a rate for each MW of name-plated generating capacity of each unit comprising a power station. In the former case there is an expectation that the methodology adopted for the rating agreement struck years ago for Loy Yang B in the Latrobe Valley be used as a precedent which, compared with the rates payable by any other private company , are considered very favourable to the generator.

The principles that underpin the discounting of rates to electricity generators run contrary to the principles of the National Competition Policy and in particular, competitive neutrality, which should provide an equal footing for all commercial operators. Despite these policy constraints, the State Government appears to accept electricity generation should be provided with a mandatory discount of a legitimate cost of business.

The argument can be made that all commercial and industrial ratepayers should be treated equitably by councils, that rates are fundamentally a wealth tax and the value of the asset is the determinant of the quantum of payments made. This is the basis for the treatment of the vast majority of non-farm business in Victoria. It should be noted that across the State and within respective council areas that other commercial operations are paying full ad valorem rates on valuations that exceed the values of power stations. There is certainly a different State focus here with part of the energy industry being singled out for favourable treatment and the burden being linked to productive capacity. This can be contrasted with Ministerial Guidelines for Differential Rating aimed at discouraging different treatment for narrowly definable land types.

### Ministerial Guidelines for the Use of Differential Rates

No other level of government has their decisions on taxes and charges subject to the same level of official public scrutiny, input, justification and restriction as local government.

Ministerial Guidelines for Differential Rating came into force in April 2013. The Guidelines are an imposition on the political autonomy of councils to develop the most equitable rating system given their own local circumstances. By reducing flexibility the guidelines limit the ability to tailor local rating systems to achieve equity, are contradictory and give mixed messages.

The Guidelines were introduced in order to address a perceived issue with different rating practices in and a need for greater consistency, transparency and certainty across, the 79 municipalities in Victoria. The fact was that close to 80% of councils used 5 or fewer differential rates at the time. Logic suggests that variation in rating systems around Victoria is reflective of the fact that different but legitimate views of equity may be held and it is unclear why variation should be discouraged. Clearly, rates and charges vary between the Australian States.

An inference from the Guidelines is that commonality is preferable, and the State’s assumption that it is better to have things neater, easier and that at least on the surface, enable cross-council comparisons. However, there is no compelling reason why the rates paid in one municipality should be of great significance to other councils particularly given councils’ different structural characteristics, varying reliance on non-rate revenues and because, when made, such comparisons are usually statistically unsound.

Implicit in the Guidelines is a specific requirement for councils to have regard to the issue of benefit and they actually identify two types of land where benefit must be considered. In relation to the former they are suitable “in the case of circumstances whereby common types and classes of land use consistently demonstrate significant relative rate disparities, including access to services arising from the use of a uniform rate, may be addressed by use of the differential rate powers”. They further state “Common types and classes of land use where such circumstance can arise and where a Council must give consideration to reducing the rate burden through use of a reduced differential rate include (but are not limited to):

* Farm land (as defined by the Valuation of Land Act 1960); and
* Retirement village land (as defined by the Retirement Villages Act 1986)”.

The Guidelines also suggest the consideration of geographic differential rates on a broad geographic basis such as a town may be appropriate but **not** where they would apply to very few assessments.

The MAV believes that this advice is inappropriate because:

* there is great difficulty in determining the relative benefits of ratepayers;
* councils should be left to independently determine the appropriateness and importance of the benefit principle in the determination of rating equity; and
* the elevation of specific groups that must be considered in relation to benefit gives the appearance of parochialism and undue influence of certain interests and an impression that councils should be more sensitive to these groups because their perceived (lack of) benefit is more clear cut[[6]](#footnote-7).

One could be forgiven for thinking that pressure from the farming and retirement housing lobbies was a significant factor in triggering the Guidelines.

The Guidelines also recommend that “circumstances whereby significant rate volatility occurs as a result of large movements in valuation may be more appropriately addressed through the use of other revenue instruments such as a rebate or deferred payment, instead of through the use of differential rating”. The MAV acknowledges the potential for dramatic short-term shifts in valuations, the range of changes that can occur even in small property sub-markets as a result of revaluation but the tendency for such changes to even-out to some extent over the longer to medium term as markets adjust. The use of rebates and deferred payments as a means of addressing this is however questioned, particularly the provision of relief for large numbers of properties that may be affected by revaluations. The use of “softeners” such as arrangements should be considered on a case by case basis.

The Guidelines set out the classes of land which are either appropriate, require careful consideration or inappropriate for differential rating. **Appropriate** land classes include:

* general;
* residential;
* farm;
* commercial;
* industrial;
* retirement village;
* vacant;
* derelict; and
* cultural and recreational.

Interestingly, the appropriate categories include both broad (general, residential, farm, commercial and industrial) and narrower categories, and do not give any guidance with respect to the overlay of these categories on a geographic (town) basis.

Types and classes of land categories that must be **carefully considered** include (but are not limited to):

* holiday rental;
* extractive;
* landfill;
* dryland farming;
* irrigated farm;
* automobile manufacture;
* petroleum production; and
* aluminium production.

The Guidelines seek to dissuade councils from applying different rates to narrowly or specifically defined activities or land use types stating that it would **inappropriate** to declare a differential rate applicable to:

* electronic gaming machine venues or casinos;
* liquor licensed venues or liquor outlet premises;
* business premises defined whole or in part by hours of trade;
* fast food franchises or premises;
* tree plantations in the farming and rural activity zones; and
* land within the Urban Growth Zone without an approved Precinct Structure Plan in place.

In relation to the last group, the Guidelines state further that the use of differential rating powers to lessen the impact of externalities arising from the use of land or to fund actions intended to ameliorate the externalities arising from business undertaken on the land is not appropriate.

The MAV submits that **all** differentials should be considered after careful consideration. The wording and lack of the qualifier, “but are not limited to” in relation to the *appropriate* category, give the impression that the level of rigour and justification required with this group may be lower and, in any case, acceptable without any rationale being provided as to why the use of these very broad or specific classes leads to greater equity. There is a lack of clarity about the ambit between those requiring careful consideration and those that that are deemed appropriate and what level of specificity puts a category in the risky zone. For example, automobile manufacture land is possibly contentious but what is the view with respect to transport equipment manufacture or manufacturing generally?

The Guidelines do not provide any advice with respect to differential rates being used to assist objectives other than those related to equity except in relation to those identified as inappropriate. The MAV does not necessarily agree that rates should not be used to influence any such objectives however stress that this would always have to be assessed on the basis of cost effectiveness against other options (e.g. planning controls, local laws, educational programs, grants programs), the superior objective of rating equity and the primary roles of local government. The inclusion of vacant land in the appropriate category is curious given that the common reason cited for a higher rate on this land is to encourage development rather than benefit or capacity to pay. The latter two are clearly very difficult arguments to argue for this type of land. It is clear vacant land is due as much *careful consideration* as any of the others nominated in this cohort.

There also appears to be a contradiction by the inclusion of derelict land in the “appropriate” category given the stance on externalities and the ability of councils to use other instruments to deal with this issue.

The guidelines are not particularly instructive in relation to a number of areas of interest to councils including the treatment of not-for-profits, Central Business/Activity Districts and mixed uses (e.g. combined residential and businesses use) and urban farms and farms distinguished by size (area) which have shown to be of particular interest to rural and regional councils.

They are silent with respect to the possibility of separating assessments into parcels or portions to which different rates may be applied. It is believed many councils may be ignorant of, or reticent without official State advice, to consider this option which gives councils the potential to separate among other things farm from curtilage and social/sporting areas from hospitality areas. Cultural and recreation land rates are identified as an appropriate category for differential rating but social and sporting clubs often have associated gaming, bistros and liquor licences. Rate relief may be provided by councils in recognition of the community benefits offered by this land however there are a range of issues including whether the main focus is commercial or recreational/social, profit is private or used for the benefit of members/recreational users, the level of public access involved and how this sits with competitive neutrality given that the hospitality side of these operations is in essence no different from other businesses.

The Guidelines argue “that the ‘progressive’ use of differential rates applicable at specified property valuation bands to a certain type and class of property within a municipality should be considered with great caution and have regard to the impact of the rating decision on those rated differentially”. It should be noted that the state Government applies progressive rates with respect to State Land Tax.

### Municipal Charge

The municipal charge is a flat, identical charge that may be used to offset some of the administrative costs” of the council. The legislation is not definitive on what comprises “administrative costs” and councils are not required to indicate which costs are hypothecated to the municipal charge. There is certainly a good deal of arbitrariness around the municipal charge and why some or some portion of particular administrative costs, particularly as they relate to the financing of public goods is appropriately covered by fixed charges.

Although one of the legislated objectives for local government is the “equitable imposition of rates and charges” there is no legislative requirement for councils to justify the level of the municipal charge in the same way as differential rates. Depending on the value of a property and the relative levels of differential rates the combined effects of the municipal charge and rate in the dollar may be reinforcing or offsetting for specific properties. For example, reinforcing effects occur where relatively higher-valued properties that benefit from the municipal charge are also subject to lower rates in the dollar. Offsetting effects, for example, include impacts on relatively low(er)-valued properties that are subject to relatively low rates in the dollar and a municipal charge.

If one accepts the general proposition that, households with lesser financial capacity reside in lower valued residences and smaller businesses tend to be under more pressure than larger ones, the application of the municipal charge, particularly at high levels, runs counter to the capacity to pay principle.

On the other hand, an objective may be to specifically reduce the rates paid by higher-valued properties. The VFF for example, is a strong adherent of the municipal charge being levied at the highest levels possible and in combination with lower- than-general differential rates which has the effect of providing significant relief to larger farms at the expense of lower- valued properties (residences, non-farm businesses and low valued farms).

Equity is given as a chief consideration. Section 3C, Objectives of a Council (f) in the LG Act requires councils to “ensure the equitable imposition of rates and charges”. However, no specific legislative guidance is provided with respect to this. In effect, the declaration process regarding differential rates set out under S.161 of the Act stands as the only reference, oblique as it is, that requires councils to give the reasons for differential rates and any ministerial guidelines which councils need to have regard.

The assumption that could be drawn is that the State considers equity less an issue around a uniform rate and/or municipal charge than differential rates although there is no logic in this reasoning particularly given it is the municipal charge and ad valorem rates **in combination** that determines the rating burden and the reasoning process should reflect this.

### Rating Strategies

There is an expectation that all will be revealed in councils’ “rating strategies”. These are documents expected to be produced by councils that underpin the decisions about the rating system and specifically consider local factors and conditions, establish rationales, model impacts, provide for community consultation and input and ultimately determine the final decisions about the numbers. Attempts have been made by the State to provide best practice notes on this process and while borrowing heavily on MAV material at times the final products have been deemed to be less than ideal.

All councils produce periodically what they call rating strategies, although they differ considerably in terms of quality. Some are more in the form of statements with reasons but without accompanying discussion or evidence that solidly establish a rationale for decisions and there has been a tendency for oft -quoted assumptions about different groups of ratepayers to have become perpetuated in some of these documents without being tested in any way. Additionally, the modelling of impacts of decisions tends to be generally limited – in many cases it is unsophisticated, piecemeal and unrealistic. Many are preoccupied with “average rate bills” and the shares of aggregate rates paid by large classes of ratepayers which tell very little about the true incidence of rates.

Influencing this are two main factors - the complexity of rates and the resources that can reasonably be dedicated to the process. It is hard to be critical of councillors, the ultimate decision-makers on rates, because the development of a rating system based on best practice is very difficult and time consuming. Not only do they have to weigh-up the evidence and arguments with some objectivity, they have to understand the mechanics of how rating instruments work. Often councillors are new with little experience and rely exclusively or largely on what officers have assembled. They may have had little experience in or understanding of policy development, research data, statistical analysis and valuation principle – all requirements in the rating strategy process. Similarly, council officers with other competing responsibilities have a considerable workload in this task. Their experience as well as their time may be limited and their abilities vary.

It is quite obvious that the general public finds it difficult to fully understand the way rates work and this extends as far as State bureaucrats with responsibilities in the area. Often councils are faced with seeking external consultancy assistance to undertake the process because of the difficulty involved.

Many of the rate systems currently in place in councils have a strong historical basis and have been subject to “incrementalism”.The legacy of minimum rates and traditional revenue shares (even pre-amalgamation) are traceable because of the factors that work against councils making substantial changes. A premium is placed on the objective of rate stability and this works to constrain the development of rating systems from first principle as if they were a greenfield – what system would you have in place if you were starting from scratch? This is not assisted by things like councillor turnover, frequent revaluation, inconsistencies in the rating framework and uncertainties as to what can and cannot or should not be done.

**5.0 Interest Groups**

In a democratic society it is appropriate that ratepayers are able to question their rating system and the rates they are paying. A number of interest groups are particularly active in this area including the VFF, BOMA, the Property Council, Retirement Village groups and various Ratepayer and Business Associations that have sprung-up. Some property types are more amorphous and ratepayers largely unorganised or disconnected – for example in relation to vacant land which attracts higher rates in a number of municipalities.

Of course such groups will present cases which best represent their interests and it is incumbent upon councils to consider these with objectivity and in their considerations of how these accord with their corporate view of equity including the flow-on effects for other ratepayers. The example below distils the equity arguments put by the VFF and farming interests for lower rates being paid by farmers and the competing arguments that may be put in response.

|  |  |
| --- | --- |
| **Arguments For Rate Assistance to Farms** | **Arguments Against Rates Assistance to Farms** |
| Farmers use fewer services than other ratepayers. Farmers face geographic impediments in terms of access to council services, which are primarily located in urban areas.  The farming sector has relatively low incomes and return on assets. Farming is the only “occupation” dependent on a land asset for earning an income - the higher land component inherent in farming properties and proximity to urban development contributes to their relatively higher values and results in farmers having to pay disproportionately high rates in relation to their income or the surplus able to be generated from their properties.  Data show that council rates account for a higher proportion of the business expenses of farms than non-farm business.  Farmers are more heavily impacted by environmental factors such as drought, water security and global warming.  Farmers have little market power and are unable to pass on increases in costs like other businesses.  Agricultural producers must contend withtariffs on Australian exports in importing countries, subsidies to farmers in other countries, currency fluctuations and volatility in prices.  Farming is seasonal and often affected by the long lead times before output is traded (e.g. agroforestry) and this impacts cash-flow and returns.  Assistance will reduce the potential for the loss and fragmentation of highly valued agricultural land and promote food security. | Impossible to accurately and efficiently determine and value levels of service *use* by consumers. Rates are used to fund public goods and services where cross-subsidies cannot be avoided and to provide universal *access*. In that sense they are comparable to income taxes. Access to services is not restricted and has been made easier by improvements in transport and technology. Farming families use urban-based services when they visit service centres. Expenditures largely benefitting farmers may be very costly when considered on the basis of the cost per beneficiary e.g. spending on local roads and bridges over which supplies and produce are moved and in servicing smaller and more remote centres.  Agriculture includes a wide range of activities and returns to sectors vary enormously. Returns for non-farm business sectors may be lower. Given levels of asset intensity returns may still be monetarily significant for farms when compared with other small businesses and households.  Many agricultural businesses have objectives other than profit including lifestyle, capital gains and the ability to decrease income tax by shifting losses to profitable non-farm enterprises. There is also a tendency for farmers to reinvest in the business to provide for retirement rather than divert income to personal superannuation.  Unfair comparisons are often made. Land is an input to the operations of all business not just farms. The relevant factor is not the size of land holdings, but value, and it is not unusual for commercial land values to be significant relative to the business operations that take place on them.  Farms may be regarded generally as taking two forms– those that are purely commercial in nature and those that include farmhouse and a commercial operation. Rates on family farming operations (including farmhouse) should be compared to the combined burden of a non-farm business and household. While rates generally account for a higher proportion of total business costs of farms the figure is skewed by the significant labour and plant and equipment costs of larger employers and higher labour intensities of non-farm businesses.  Non-farm small businesses may have little market power and be subject to considerable fluctuation in fortunes.The rhetoric implies that while farmers are price-takers, non-farm businesses are not.Farming is generally more “open” but agriculturalists produce for local, interstate and national as well as overseas markets depending on the segment. The competition that other non-farm businesses face from abroad (e.g. cheap imports from Asia) should not be understated. Many non-farm businesses are focused on local markets or tourist trade – in other words, it could be argued that they face more restricted markets than many farmers.Just as farming is affected by the vagaries of weather and international markets, local non-farm businesses will be affected by their own unique circumstances – strong local competition in a small market, changes in the cost of inputs, reduced protection, staff/skill shortages and technological change.  Farmers pay less tax than most other businesses and are eligible for things like income averaging, the farm management deposits scheme,the highest level of diesel fuel tax credit, immediate deductions for landcare operations, three-year write-off for water facilities, ten year write-off for electricity connections and telephone lines, accelerated depreciation for horticultural plants, deferral of profit on forced disposal or death of livestock, deferral of profit on insurance recoveries, deferral of profit on double wool clips and greater leniency with respect to non-commercial business loss rules. They are often supported by assistance programs e.g. Commonwealth exceptional circumstances rebate during drought. For a salary, tax is often paid on the basis of one person earning the gross salary but farmers often split the profits amongst partners or trust beneficiaries to reduce tax liability. Unlike other businesses farms are also exempt from State land tax.  The level of consolidation in agriculture is resulting in an increasing turnover from smaller family-run farming operations into relatively large corporates.  The diversity of many non-farm small businesses means that representation and assistance provided by a peak body is not available. Primary producers receive advice, support and membership discounts (including energy prices and vehicles) via membership with the VFF.  Rates account for a small proportion of the operating costs of farms and are unlikely to materially change the viability of marginal farming enterprises.  Protection for farming land is better addressed through planning provisions. |

The influence of an interest group like the VFF in rural areas should not be understated, but claims from such organisations need to be critically evaluated. In March 2015 the VFF produced the Report, “Inequities in Rural Rating - A Comparison of the Rates on Businesses in Rural and Regional Victoria” which attempted to show that the significant disparity between rates paid by farm businesses compared to other commercial ratepayers. The findings were based on a comparison of the *average* rates paid between farm *businesses* and commercial *assessments* in local government areas*.*

First, average rates are a poor indicator of the level of rates being paid across the frequency distribution of property values. No property actually pays average rates and average levels are influenced by extreme values. Second, the comparison effectively compares multiple assessments for farms and single assessments for non-farm businesses ignoring the fact that while farm ratepayers often reside on farms, non-farm business owners may have businesses that involve more than one assessment and are also paying rates on their residences. The Report also purports to show the discrepancy between agricultural businesses and other commercial businesses in dollars of economic output per dollar of rates payed. The VFF has yet to respond to a MAV request made some time ago to clarify the basis and currency of the small area data used to establish the value of production in local government areas, which appears to have been extrapolated in some way.

## Summary

Rates are an extremely complex area, both to understand and explain, and in most cases subject to undeserved bad press.

The homogeneity of council rating systems should not be an end or considered reflective that council rating systems are more equitable.

A system based on CIV, a uniform rate and no municipal charge is the easiest to justify in a holistic and consistent way. However this may not be consistent with council views of rating equity.

Councils should not be restricted in their use of differential rates provided they undertake the work justifying them and they are subject to public scrutiny.

Fixed charge components are appropriately constrained under the rating framework because they are regressive and, if used, should be required to be justified in the same way as differential rates.

Less well-resourced councils find it more difficult to deal with the rate strategy development process.

Interest groups should be required to convince councils of the validity of their arguments for special treatment rather than have their case prosecuted by the State Government.

The current framework provided by State legislation and associated guidelines is in places contradictory, confusing, inequitable and overly interventionist. In particular, exemptions and special arrangements should be reviewed and a more hands-off approach to differential rating taken.

Less well-resourced councils find it more difficult to deal with the rate strategy development process. Nevertheless there is room for improvement in councils’ performance in rate strategy development.

1. For the purposes of this analyses capex excludes funds spent on collections [↑](#footnote-ref-2)
2. Other liabilities under the scheme are related to Water Authorities [↑](#footnote-ref-3)
3. Moving averages for asset renewal and rates covering a number of years has been used to address the issue of lumpiness in renewal spending [↑](#footnote-ref-4)
4. Comparison of a household comprising a male breadwinner on AWE with a dependent spouse, two infant children and home mortgage can be shown to have a “financially poorer” position than both single and couple pensioners fully or part reliant on the age pension owning their home outright and using a flexible draw down reverse mortgage to pay council rates. [↑](#footnote-ref-5)
5. In South Australia, the Local Government Act 1999 has provision for an exemption from rates on land that is within the area of the District Council of Coober Pedy. In the NT all Mining Land mining operations are rated through a provision that involves an application process by councils and consultative process between the councils, Minister and mine owners [↑](#footnote-ref-6)
6. For example why would the benefit argument be any more valid with respect to retirement villages than other gated developments/resorts with common property [↑](#footnote-ref-7)