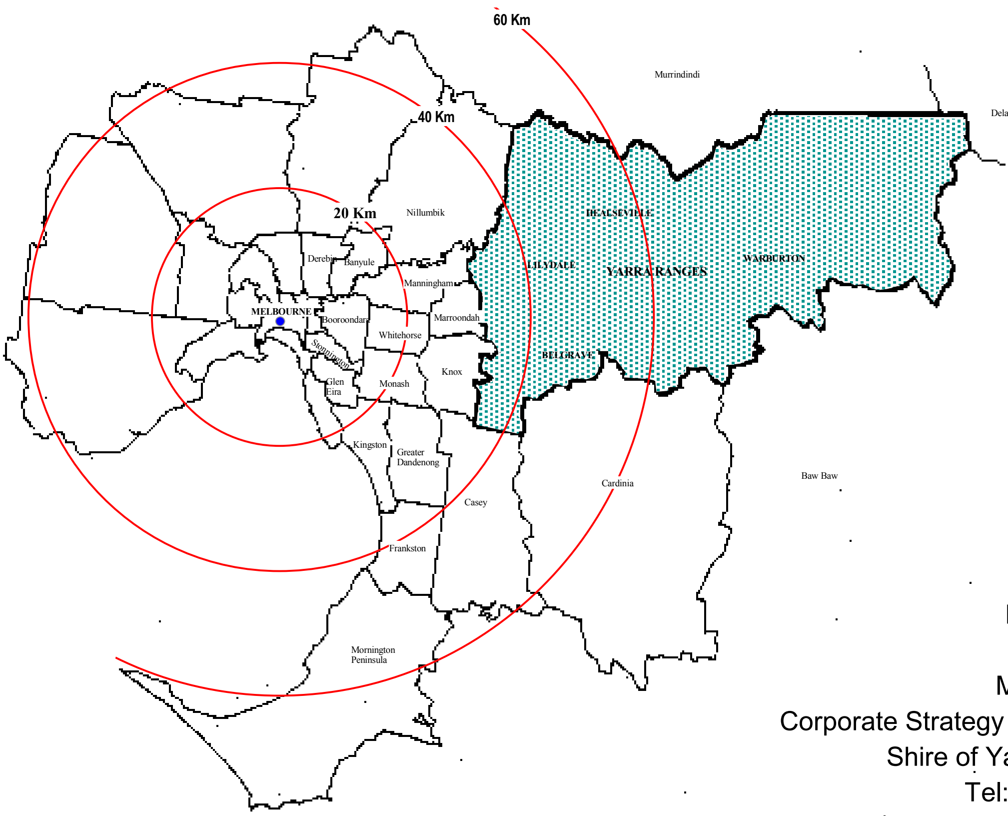
Submission to

Productivity Commission

Assessing Local Government Revenue Raising Capacity



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1. INTRODUCTION

The Shire of Yarra Ranges welcomes the opportunity to make a submission in relation to the Productivity Commission's study 'Assessing Local Government Revenue Raising Capacity'.

The issues raised in this submission impact on the Shire of Yarra Ranges and are also illustrative of some of the revenue issues faced more broadly by Interface Councils, Councils that sit at the fringe of metropolitan Melbourne. While not addressing all of the questions raised in the Productivity Commission Issues Paper, this submission addresses the key issues of concern to the Shire of Yarra Ranges.

2. ABOUT THE SHIRE OF YARRA RANGES

The Shire of Yarra Ranges is the largest municipality in metropolitan Melbourne and has a mix of urban and rural communities. Whilst often classified as a metropolitan Council, it is unique from other metropolitan Councils in that:

- it is significantly larger than other local government authorities, with an area of 2500 square kilometres;
- around 70% of the Shire's population lives in the 'urban' areas of the municipality which total approximately 20% of the Shire's landmass. The remaining population is dispersed across approximately 1700 square kilometres of rural and forested land; and
- it has some of the most productive rural land and environmentally sensitive areas in Victoria. The Shire's topography also creates significant geographic divisions and physical barriers between townships (see Figure 1: Map of the Shire of Yarra Ranges).

Taken together, these elements have the effect of segmenting the Shire into several different zones. This mix of distinct and dispersed communities impacts on both our residents' ability to access services and on Council's capacity to provide high-quality infrastructure and services to meet the needs of our communities.

3. THE UNIQUE POSITION OF INTERFACE COUNCILS

Almost a fifth of Melbourne's population live in the eight Interface Councils that surround metropolitan Melbourne. The rural/urban mix and high population dispersion is common to these Councils at the interface. Common also to Interface Councils are issues associated with access to public transport, ageing and inadequate infrastructure in established areas, and difficulties meeting the service needs of dispersed and varied communities. Interface Councils also face significant responsibilities in protecting and managing the natural environment within their municipal boundaries.

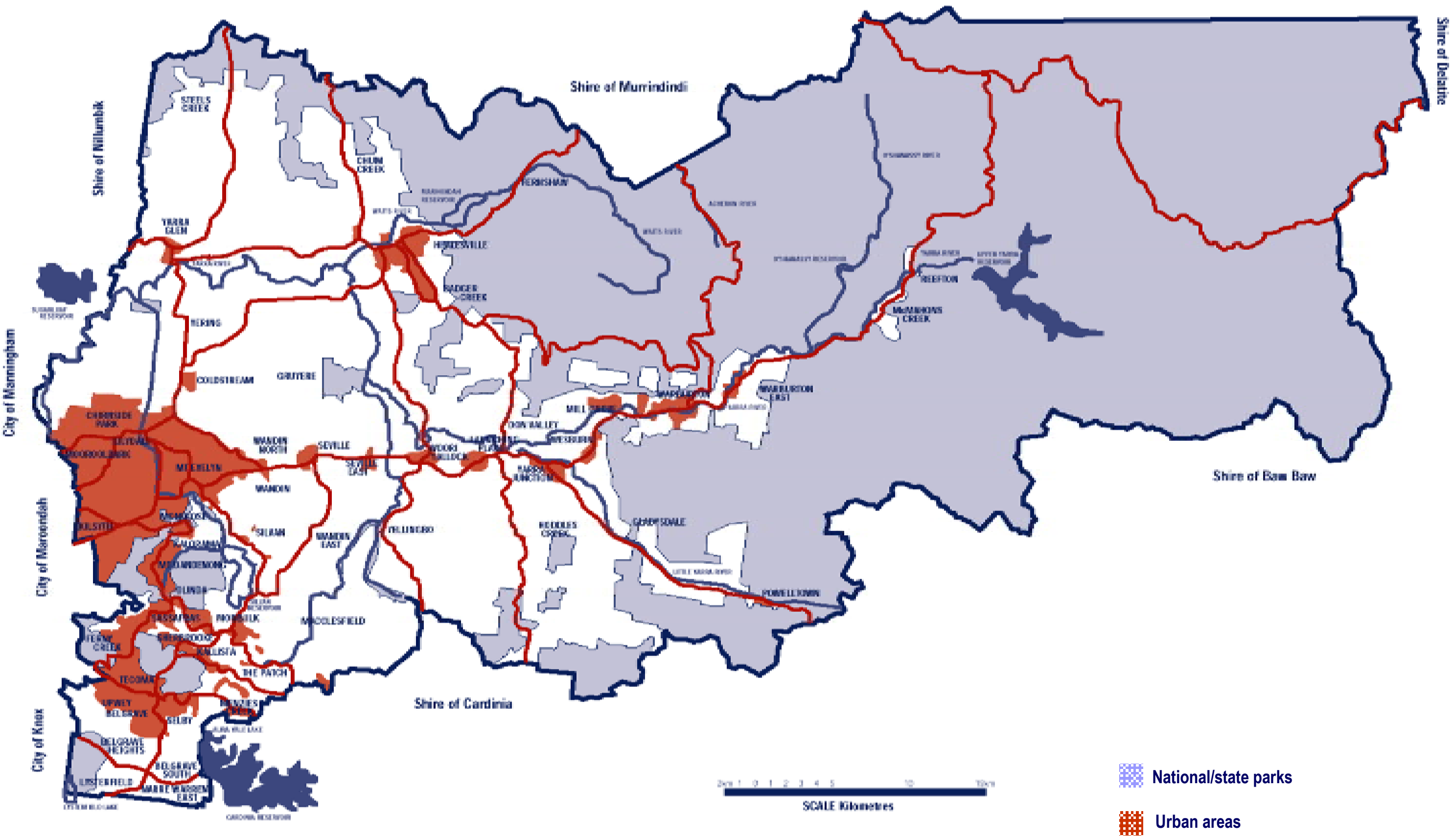
4. The Changing Role of Local Government

Since amalgamation, the role of local government in Victoria has changed significantly, with a shift from being the custodian of roads, rates and rubbish, to the builders of communities through the provision of extra services in the areas of health, welfare, safety and community amenities, including a stronger regulatory role. The expectation on the Shire of Yarra Ranges to fulfil this expanded role for its community has been clearly expressed and mandated through the development of our community plan, Vision 2020.

The Victorian Government has also acknowledged this expanded role, with the establishment of the Department of Victorian Communities (DVC) and changes to the Local Government Act (2003). Section 3D of the Act states that the role of a Council includes ‘fostering community cohesion and encouraging active participation’ as well as ‘advocating the interests of the local community to other communities and government’.

These developments have not, however, been supported by responsive funding and resourcing frameworks. While the objective of local government is to promote the social, economic and environmental viability and sustainability of local communities, it is expected to do so with limited additional resources.

Figure 1: Map of the Shire of Yarra Ranges



5. Revenue Sources

While the variation in the revenue sources of local governments across Australia is acknowledged in the Issues Paper, the extent and implications of variation should not be underestimated. The Issues Paper shows that on average just over a third of local government revenue comes from council rates (37.3%) and almost a third from the sale of goods and services (28.9%). Other income (including developer contributions and fines) contributes another 19.0%.

Figure 2 illustrates the significantly different revenue model experienced by the Shire of Yarra Ranges. Reflective of other Victorian Councils, and particularly those at the interface, the Shire's major source of revenue is Council rates, with grants and subsidies forming the other key revenue source:

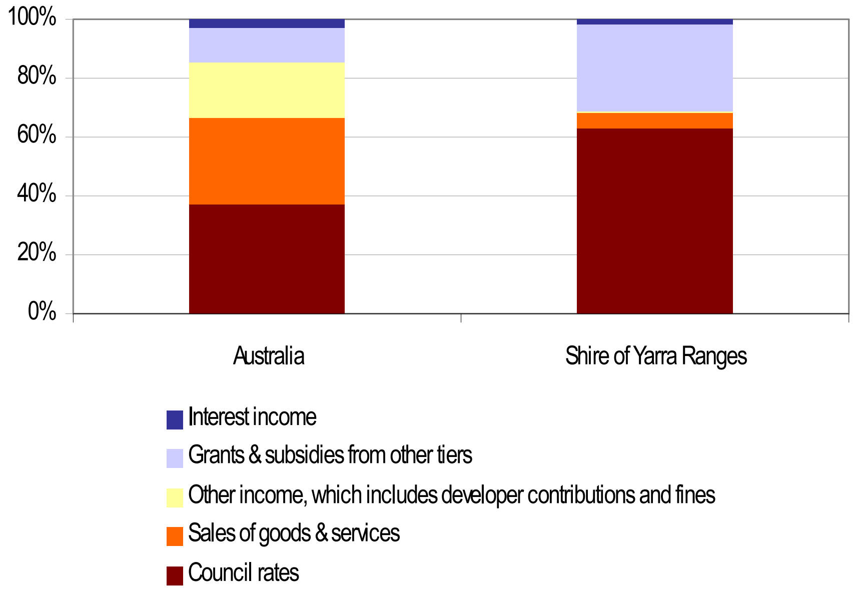
- Rates: Rates are projected to contribute 62.9% in 2007/08, almost double the national average in 2005/06. The Shire's reliance on rates has increased marginally over recent years and is higher than the projected average across Victoria for 2007/08 of 56.0% (MAV).

- Grants and subsidies: Grants and subsidies are the other key source of revenue for the Shire at 29.3%, more than double the national average of 12.1%.

- Sale of goods and services: The sale of goods and services will contribute a comparatively small 5.2% to the Shire's revenue in 2007/08, about a fifth of the average for local governments nationally.

- Other income: Other income (which includes developer contributions and fines) will only contribute 0.6% of the Shire's revenue in 2007/08. This is in stark contrast to the 19.0% average across Australia.

Figure 2: Shire of Yarra Ranges and National Local Government Revenue Sources



Source: Shire of Yarra Ranges Draft Budget 2007/08 and ABS unpublished data, 2005/06

6. Explanation of Revenue Sources

Prior to amalgamation, half of the Shire of Yarra Ranges' landmass was considered rural and therefore had access to rural funding programs. Since amalgamation, these areas have been designated urban and as such are not eligible to access these funds. These communities are still rural for all intents and purposes, however, this lack of rural recognition has significant financial implications for the Shire.

While all Interface Councils experience similar challenges, a number incorporate designated urban growth corridors, enabling them to source revenue from developer contribution. The Shire's ability to raise revenue from developer contributions is, however, minimal. This is because the Victorian Government, through Melbourne 2030, established urban growth boundaries and set aside green wedge zones. Development in the Shire has, for the most part, reached its urban growth boundaries and population is likely to increase only incrementally over the long-term.

As an Interface Council, the Shire is also faced with higher costs to deliver services to its varied and dispersed communities. This comes on top of the ever-increasing costs of service delivery and infrastructure maintenance and renewal being experienced across Victoria generally. As well as high costs of delivery, the capacity for the Shire's community to pay for goods and services is inhibited by the additional costs residents face to travel to reach services, pockets of considerable economic hardship and higher needs resulting from isolation and disadvantage.

In addition, cost-shifting has made a significant impact upon revenue and program delivery for the Shire of Yarra Ranges. While the recently established Inter-Governmental Agreement introduced a framework to address the issue of cost-shifting to local government, a number of examples of cost-shifting still remain (see School Crossing Subsidy Scheme and Library Grants examples).

The Victoria Grants Commission allocation of federal funding is also increasing at an insufficient rate each year. While the Grants Commission methodology for determining the allocation of funds between Council's is largely effective, increases to the pool of funding available are underpinned by the Consumer Price Index which does not adequately reflect the increasing costs of providing human-based services to our communities. This has

School Crossing Subsidy Scheme

In 1975, the School Crossing Subsidy Scheme was developed in partnership between the state government and local governments in Victoria.

Over the course of time, the level of subsidy provided by the state government has decreased from approximately 70% in 1975 to an estimated 30% in 2005.

This means that the proportion of funding has reversed over the 30 year period with local governments now providing the majority of funding for the scheme.

Library Grants

The Eastern Region Libraries (ERL) Corporation provides library services to the cities of Knox, Maroondah and the Shire of Yarra Ranges. Funding for ERL is provided by member Councils and through grants from the state government.

The 2007-08 ERL budget has just been finalised. This year, the state government has committed to an increase in grant funding of only 2.4%, leaving the three member Councils no choice but to increase their funding by a minimum of 4.5% to address shortfalls.

This represents a significant cost shift from the state government to local government and raises concern over the level of state government funding for public library services in Victoria.

resulted in the average rates rises for the Shire and across Victoria trending at around 6% in recent years, as well as an increasing reliance on rates to cover revenue gaps (rates are expected to contribute an average of 56% to the revenue of Victoria Council's in 2007/08 compared with 49% in 2003/04).

Finally, the local government sector's share of taxation revenue has declined in real terms over the past decade, and currently sits at 3%. This has placed even further pressure on the income of local governments.

When combined, these factors limit the revenue streams available to the Shire of Yarra Ranges and make the Shire particularly dependent on Council rates and grants and subsidies from other tiers of government.

7. Revenue Issues

While the Shire of Yarra Ranges is effectively servicing its community from its current revenue model, there are some concerns about the model's long-term suitability:

- The rate of increase in the cost of service delivery and infrastructure renewal and maintenance is considerably greater than CPI.
- The community's capacity to pay ever-increasing rates bills is limited, particularly for the Shire of Yarra Ranges with a population that has pockets of high disadvantage, is highly dispersed and projected to age in the coming years.
- The uncertainty of the availability of grants and subsidies limits Council's ability to plan and consistently deliver some services and infrastructure programs to our communities.
- The limited contribution of the sale of goods and services not only increases the Shire's reliance on rates and grants and subsidies, but can also inhibit the full and necessary delivery of services and result in reallocation of funds within Council's budget to cover gaps.
- The pool of federal funding available through the Victoria Grants Commission is inadequate, creating an ever-increasing gap between the allocation of this funding and the reality of the cost of service delivery.
- Should issues of cost-shifting from state and federal governments not be ameliorated, Council will continue to absorb increasing levels of service and infrastructure into its budget without the necessary revenue to properly fund these initiatives.

8. Operational Efficiency

The Shire of Yarra Ranges continues to undertake a raft of measures to improve the organisation's operational efficiency. Since the introduction of Best Value Victoria in 2000, the Shire of Yarra Ranges has reviewed all of its business processes and made significant improvements to the efficiency of infrastructure and service delivery. The principles of Best Value are now embedded in the Shire's annual business planning process.

The Shire has also introduced regular benchmarking activities, works effectively with other Councils and organisations to share knowledge and programs, is engaged in bulk purchasing arrangements and has embarked on regional service delivery, most notably with its waste collection (see Waste Collection example). These measures serve to improve Council's efficiency, improve services for our communities and reduce unnecessary spending and pressure on resources.

There is also a trend across the local government sector of co-locating services and facilities. The Shire of Yarra Ranges is currently embarking on a program to develop a number of 'Community Hubs'. These are hubs that share resources and target groups through the consolidation of a range of services within a shared facility. The creation of these hubs provides improved accessibility for our community, maximises the functionality of facilities and reduces costs associated with infrastructure maintenance and improvement.

Waste Collection

Along with Victoria's other 30 metropolitan Councils, the Shire of Yarra Ranges is part of the Metropolitan Waste Management Group (MWMG). The MWMG's coordinating body is the Local Government Waste Forum, comprised of representatives from each member Council.

The MWMG plans for and coordinates waste management services across metropolitan Melbourne. It also plays a key role in educating the community about waste management and broader environmental issues. Through the MWMG improved service and greater efficiency is being achieved in the delivery of waste management.

9. ALTERNATIVE FUNDING MODELS

The creation of more effective funding models can only be developed through the recognition of the expanding role of local government and a commitment to selecting the most effective and appropriate level of government for the delivery of services and programs. While the Issues Paper states that '[a] local government may be less willing to raise its own revenues if it can rely on grants from other levels of government', we would suggest instead that grants from other tiers of government are an essential revenue source and that local government is often better positioned to effectively and efficiently deliver these projects to our communities than the state or federal government.

It is also important that the manner in which grants and subsidies are provided to local governments are program appropriate, allow Councils to determine their own spending and are not administratively cumbersome. An example of this is the Roads to Recovery Program funding (see Roads to Recovery example). We would suggest that the funding model of this highly successful program could be applied more broadly, with the Local Communities Infrastructure Renewals Fund recommended in the PriceWaterhouseCoopers' paper 'National Financial Sustainability Study of Local Government' one program that could adopt similar funding principles.

Finally, the revenue position of local governments could be significantly improved if the federal government increased the Grants Commission allocation so that the pool of funding was large enough for its purposes to be fulfilled. This could be done by either increasing the taxation share made available to the local government sector or by using a more appropriate index, such as the MAV Local Government Cost Index, to calculate annual increases to grants and subsidies.

ROADS TO RECOVERY

The Roads to Recovery Program is funded by the federal government to assist local government to accelerate the upgrade of local road infrastructure. All Councils are guaranteed a share of the total available funding.

Unlike other models, funding is paid directly from the federal government to local government. Spending decisions are made by Councils and the administrative processes are comparatively simple.

This model has proved hugely successful, with the federal government announcing in May that the Program will be extended to 2014 and the annual funding increased.