

9 September 2016

Executive Officer  
Environment, Natural Resources and Regional Development  
Committee  
Parliament House  
Spring Street  
EAST MELBOURNE VIC 3002



Dear Ms Halfpenny,

**ASU Submission to Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils**

The Australian Services Union Victorian and Tasmanian Authorities and Services Branch (ASU) welcomes this opportunity to participate in the Environment, Natural Resources and Regional Development Committee's inquiry into the abovementioned matter.

As committee members may be aware the ASU is the union that represents the industrial interests of local government employees.

Local government faces a plethora of challenges in the near term. The principle challenge is the impact the state government's rate capping policy has had on councils' ability to deliver services, infrastructure and capital works projects. All these areas, key responsibilities for all Victoria's councils, have been made harder to perform due to the constraints imposed by a rate cap policy that shows no regard to the cost pressures associated with the delivery of these areas of activity. We welcome the opportunity afforded by this inquiry to express our concerns regarding this specific policy and highlight how it has adversely affected local government workers, the services they provide and the impact this has had on those members of the Victorian community who depend on the services ASU members provide.

Sadly there is no good story to tell about the government's rate capping policy.

This submission will focus on the first three items contained under the terms of reference, which are:

- A. Local government funding and budgetary pressures
- B. Fairness, equity and adequacy of rating systems, and,
- C. Impact of rate capping policies.

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## Local government funding and budgetary pressures

### Critical role of local government in regional and rural areas

Local Government plays a significant role in supporting communities and strengthening local community resilience and cohesion. This can be particularly important in regional and rural areas which have experienced reductions in their populations and economic activity. Sometimes this reduction is a consequence of shifts in public policy, technological change or market forces which have resulted in the abandonment of major services and activity in many rural and regional areas.

Local government is often a major employer in rural and regional areas, injecting life into the local economy.

EXAMPLES			
The table below contains a selection of rural councils in Victoria, showing the total population and the number of council employees (as reported in the Australian Local Government Guide).			
Name of Council	Type of Council	Total Population	Number of Council employees
Hindmarsh	Rural Agricultural Large	5,798	130
Loddon	Rural Agricultural Large	7,957	155
West Wimmera	Rural Agricultural Medium	4,521	126

The economic strength of rural and regional areas is increased by the capacity of local government. This is partly a consequence of the local purchasing power of councils and the local spending by their employees. It is also a consequence of the quality of services and infrastructure provided by local government which may play a role in attracting business, workers and families to live in the local area. The range of services provided to the local community by their councils is quite broad with some variation from council to council. Councils often provide services relating to arts and culture, meal deliveries, early childhood education and care, library services, tourism, youth services, age services, recreation, economic development, grants to business and community organisations in addition to infrastructure, planning, roads, footpaths, building, waste and environmental services. Local governments often assist in promoting the local produce, economic development, natural

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attractions and advantages of the region.<sup>1</sup> As such, there tends to be a real connection between the resilience of local communities and the sustainability of their local government.

### Local Government Funding

Generally speaking, local governments and their populations in regional and rural areas often face additional challenges to those faced by their metropolitan counterparts. Some of these challenges can make access to services more difficult and expensive where resources have come from outside the region.

Reliable and adequate sources of funding are critical to the sustainability of local governments. Key sources of funding for many councils include:

- Council rates,
- Fees and charges for services,
- Fines and penalties
- Intergovernmental grants,
- Developer charges,
- Income interest and
- Other sources.

However, there are various factors which influence the capacity of councils to raise adequate funding for valued services and infrastructure. These can include factors such as the following:

- The population size and density
- Income of communities (personal and business)
- The remoteness of communities (with higher operational costs per person in more remote areas)
- Size and geographic characteristics of the local government area
- Size and strength of local business
- Whether rate capping regimes are in place (this issue will be explored in more detail later in this submission)
- Vertical fiscal imbalance (the disparity between revenue raising and expenditure responsibilities across levels of government) this disparity will require ongoing funding from other levels of government to local government.

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<sup>1</sup> See websites of local governments, for example Golden Plains Shire which assists in promoting local advantages as well as offering residents and businesses access to services, information, activities and engagement in feedback processes <<http://www.goldenplains.vic.gov.au>>; Local Government NSW "Local and Regional Economic Development", available at <<http://www.lgsa.org.au/policy/local-and-regional-economic-development>>. See also discussion of local government and the promotion of economic development by South Australia Centre for Economic Studies, Adelaide and Flinders Universities, *Providing Local Economic Stimulus and Promoting Local Economic Development: Possibilities for Councils in South Australia*, commissioned by Local Government Association of South Australia, July 2013, <[https://www.lga.sa.gov.au/webdata/resources/files/Providing%20Local%20Economic%20Stimulus%20and%20Promoting%20Local%20Economic%20Development\\_Possibilities%20for%20Councils%20in%20South%20Australia.pdf](https://www.lga.sa.gov.au/webdata/resources/files/Providing%20Local%20Economic%20Stimulus%20and%20Promoting%20Local%20Economic%20Development_Possibilities%20for%20Councils%20in%20South%20Australia.pdf)> accessed 27 May, 2015.

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- Horizontal fiscal imbalance – disparities in funding capacities, responsibilities and costs when comparing the diverse councils.
- Cost shifting and increased responsibilities passed on to local government from other levels of government can add to the economic strain experienced by councils.<sup>2</sup> This is because of the tendency of other levels of government to require local government to do more without commensurate increases in funding
- The value and rateability of land
- The capacity to recoup costs for some services

Councils in regional and rural areas are more likely to rely on grants from other levels of government than are councils in well established, mainly metropolitan areas.

Municipal rates are a form of tax and are the sole form of local government generated tax revenue.

The inequitable nature of relations between the different levels of government (as manifest in the vertical fiscal imbalance) has a particularly severe impact on local government.<sup>3</sup> Local government generates a very small proportion of total taxation revenue in Australia, necessitating a flow-on of funds from other levels of government. This is particularly the case for rural areas which have limited capacity to raise adequate funds.

Various inquiries, into local government financial sustainability across Australia, found that a number of local governments were 'financially unsustainable' and unable to meet community demands for adequate infrastructure investment. They tended to be municipalities which had a low capacity to increase their own sources of revenue and were typically in rural localities and with large geographic areas to serve.<sup>4</sup> In addition, such councils often have more extensive infrastructure responsibilities (such as lengthier road networks to maintain). By contrast, many of the well-established, high income metropolitan areas were able to generate considerable funds whilst having less demand for infrastructure investment.

Rate capping imposed by state governments can further reduce the financial sustainability of councils, reducing the viability of much needed local services and ultimately lead to the necessity of further calls on state and commonwealth funding.

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<sup>2</sup> D. Hawker, Parliament of the Commonwealth of Australia, *Rates and Taxes: A Fair Share for Responsible Local Government*, 2003.

<sup>3</sup> For example see discussion in Andrew Worthington and Brian Dollery, *The Debate on Australian Federalism: Local Government Financial Interrelationships with State and Commonwealth Governments*, Blackwell Publishing 2000, author manuscript version, first published in Australian Journal of Public Administration 59(4): pp12-22. See also John Comrie, *Search Conference Strengthening Local Government Revenue, Background Paper*, Australian Centre of Excellence for Local Government (ACELG), Updated December 2013.

<sup>4</sup> For example, those conducted by the Financial Sustainability Review Board (FSRB), *Rising to the Challenge*, South Australian Local Government Association (2005) and; Independent Inquiry into Local Government (LGI) *Are Councils Sustainable? Final Report: Findings and Recommendations*, NSW Local Government and Shires Association, 2006. See also commentary by Brian Dollery, *A Critical Evaluation of Revitalising Local Government*, prepared on behalf of New England Education and Research Proprietary Limited for the United Services Union, nd., p19.

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There will be an ongoing requirement for federal and state governments to have an important role in the redistribution of funds to improve equity outcomes across the diverse local authorities.

However, concerns have been raised that the level of financial support provided to local government from the federal and state governments nationally has failed to keep pace with the expanded range of responsibilities required of local government.<sup>5</sup>

In addition, the federal government should develop its role in tax collection and redistribution in a manner that enables local communities to enjoy more equitable access to services and infrastructure provided through local government. This may be assisted through tightly targeted supplementary funding programs for local governments which are less able to develop financial independence.<sup>6</sup> In such ways the distribution of financial assistance could further assist in reducing the resourcing disparities that exist between local authorities.

It is the view of the ASU that other levels of government should make a greater contribution to increasing local government revenue and provide increased funding for welfare assistance rather than expecting local government to meet the funding shortfall. This is particularly important in view of the limited taxation measures available to local government; the expanded roles which it is required to perform and; the capacity that local government has to improve the economic viability of local economies – particularly in regional and rural areas.

Given the significant role which local government has in providing a broad range of services and infrastructure to communities, increased investment in this level of government could significantly reduce future calls on Commonwealth and state budgets as a result of improvements in community resilience, social cohesion and increases in economic activity.

### Budgetary Pressures

Increased community expectations and demographic shifts suggest that local government will require significant injections of funds to meet a range of challenges in the future. These including the following:

- The growing ageing population – how best to value their contribution to society and ensure their needs are adequately provided for;
- Reducing the gap in economic, social and employment opportunities faced by Indigenous communities when compared to the non-Indigenous population;
- Protecting and preserving natural resources for future generations;
- Dealing with growing pressure from conflicting interests of communities aligned with different industries competing for the same resources and opportunities;
- Working to promote community harmony, cultural activities and historical connections while valuing diversity in a changing world;
- Attracting and retaining a skilled, diverse workforce;

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<sup>5</sup> Comrie, Op. Cit, p. 10

<sup>6</sup> Mervyn Carter, *Briefing Paper: Australian Local Government Financial Reform – A Federal Perspective*, prepared for the ANZSOG Institute of Governance and the Australian Centre of Excellence for Local Government, October 2013, p15 accessed from the ACELG website, <[www.acelg.org.au](http://www.acelg.org.au)> 27 May, 2015.

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- Investing in skill development to add value to employment prospects and the wellbeing of local communities;
- Maintaining and investing in infrastructure to meet future needs and;
- Responding to natural disasters as severe weather patterns become more frequent.

However, it is understood that budgetary pressures at the local government level are affected by budgetary pressures at federal and state government levels and the inequitable relationship between the levels of government. By way of example, budgetary pressures are increased on local government as a result of any lag in the provision of grants or their indexation (such as occurred with core Commonwealth Financial Assistance Grants frozen until 2017-18), delays or scrapping of State Government funds (such as funds for country roads or bridges), or cost shifting from other levels of government (whereby councils are not paid commensurate increases in funding for increased costs associated with activities required by other levels of government). Other budgetary pressures arise from increased regulatory requirements initiated by federal and state governments (such as those relating to national reforms in relation to kindergarten facilities).

It is also appropriate that we reiterate a long standing community concern that the privatisation of revenue-generating public sector enterprises sold to profit-making organisations over recent decades has served to deplete the public coffers as time has passed. Such public policy directions have often proved to be short-sighted, particularly where the private companies have also used off-shore tax havens to minimise taxation obligations to the Australian community.<sup>7</sup>

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<sup>7</sup> See Lyn Fraser, *The Privatisation Betrayal: Losing the things we value*, Australian Services Union, Melbourne, 2015, available from ASU website <<http://www.asu.asn.au/resources/publications>>.

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## Fairness, equity and adequacy of rating systems

Council rates impose a significantly smaller tax burden on households in comparison to taxes collected by other levels of government. Indeed, the Commonwealth Government has acquired an increased proportion of the total share of tax revenue whilst local governments' share of total taxation revenue has remained modest. For example, the Commonwealth Government's share of taxation revenue increased from 77.2% in 1998-99 to 80.5% in 2010-2011 while the local government share in 1998-1999 was 3.6% and 3.5% in 2010-11.<sup>8</sup> As noted earlier, the vertical fiscal imbalance between the different levels of government necessitates the flow of funds from the Commonwealth and State governments to local government in addition to what councils are able to independently raise through the imposition of rates.

Councils use property value as part of the formula for calculating household rates. According to Municipal Association of Victoria (MAV) most councils in Victoria use the Capital improved value (CIV) which reflects the value of the land and all fixed improvements including property. The accuracy of the property valuations is important in determining a fair share of rates is paid by property owners.<sup>9</sup>

Councils take into consideration the combined value of all rateable properties, market value of property, the rate in the dollar amount and municipal charges. Waste charges are added as well as the Victoria Government's fire services property levy.

Council rates have often been referred to as an affective, simple method of taxation. However, efforts to increase fairness within the system, based on the 'ability to pay' principle is likely to significantly increase the complexity and increase administrative costs.

The provision of concessions for those facing financial hardship can help protect vulnerable community members. However the funding arrangements for such concessions and other welfare payments should be overhauled, with a view to increasingly funded by the Australian government in the interests of ensuring equitable access to services while helping to address the fiscal imbalance between the levels of government.

It should be noted that local government rates are insufficient to redress the significant community infrastructure investment backlog being carried by the sector. Ultimately there needs to be fairer arrangements for funding local government which will provide reliable, growing sources of funding into the future and better address the vertical fiscal imbalance.

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<sup>8</sup> Comrie, Op. Cit, p. 10

<sup>9</sup> Municipal Association of Victoria (MAV), 'Council Rates and Property Values,'

<<http://www.mav.asn.au/about-local-government/local-government-finance/Pages/council-rates-property-valuations.aspx>> accessed 2 September 2016.

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## Impact of rate-capping policies

Municipal council rates are a major source of funding and are the sole form of local government generated tax revenue. As noted in the Commonwealth Government's Tax Discussion Paper, it is an efficient way to raise revenue. The report stated:

*As with broad-based land taxes, municipal rates are an efficient way to raise revenue. In the theoretical scenario, land is a fixed factor of production and therefore the tax burden of broadly-applied municipal rates is paid by landowners, rather than passed onto final land users. Low rates and few concessions or exemptions also reduce the incentives and ability to avoid the tax.<sup>10</sup>*

The imposition of rate capping by State Governments impinges on the efficiency and effectiveness of this form of tax. When revenue generated through the municipal rating system is too low, it puts pressure on councils to become increasingly reliant on other levels of government in order to adequately fund needed services and infrastructure, or difficult decisions on whether services are to be reduced, infrastructure or capital projects are needed to be made. Ultimately any decision to reduce funding to these activities leads to a loss of local employment. When adequate funds are not forthcoming, broader community resilience is compromised, particularly in regional and rural areas. Inadequate funding at the local level can consequently result in longer term social, economic and infrastructure problems which will inevitably have implications for other levels of government.

State government imposed revenue generating restrictions, such as rate capping, compounded by cost-shifting measures and other limitations contribute to significant financial difficulties faced by many councils, as the experience in NSW has shown.

### Lessons from the NSW Experience

Forms of rate capping have been instigated intermittently in NSW over many decades and the process adjusted periodically.<sup>11</sup>

In NSW, various inquiries found that a number of local governments were 'financially unsustainable' and unable to meet community demands for adequate infrastructure investment.<sup>12</sup>

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<sup>10</sup> Australian Government, *Re:Think; Tax Discussion Paper*, Commonwealth of Australia, March 2015, p 149, available <<http://bettertax.gov.au/publications/discussion-paper/>>

<sup>11</sup> B. Dollery and A. Wijeweera, 'An assessment of rate-pegging in New South Wales local government', *Commonwealth Journal of Local Governance*, UTS ePress, issue 6 July, 2010, <<https://epress.lib.uts.edu.au/journals/index.php/cjlg/article/view/1619>> viewed 14 July 2015.

<sup>12</sup> For example, P. Allan, et al *Are Councils Sustainable? Final Report: Findings and Recommendations*, Independent Inquiry into Local Government (LGI), NSW Local Government and Shires Association, 2006. See also commentary by B. Dollery, *A Critical Evaluation of Revitalising Local Government*, prepared on behalf of New England Education and Research Proprietary Limited for the United Services Union, nd., p19.

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Councils in NSW have continued to call for an end to the practice of rate pegging chiefly because it has slowed rate of revenue growth to the extent that it was increasingly lagging behind local government in all other jurisdictions and threatened the capacity to fund much needed services.<sup>13</sup>

In 2013 the NSW Independent Local Government Review Panel concluded that rate pegging had a deleterious impact on sound financial management.<sup>14</sup>

In September 2013, polling research conducted by Iris Research, of over 1,000 residents across 38 local government areas in NSW, found that constituents were open to potential rate rises if it meant they would get better local services.<sup>15</sup>

Issues of concern regarding the experiences of rate pegging include:

- the detrimental impact the practice has on local government finance;
- it has a detrimental impact on council efficiency;
- the effect that it has on limiting the ability of councils to take responsibility for their own economic affairs;
- the impediments it creates for effective long-term planning, particularly in relation to infrastructure investment;
- the restriction encourages councils to increase user charges;<sup>16</sup>
- it places pressure on the ability of councils to provide targeted programs for disadvantaged members of the community and;
- the practice diminishes local autonomy.<sup>17</sup>

Given the significant role which local government has in providing a broad range of services and infrastructure to communities, increased investment in this level of government, as well as increased opportunities for genuine financial autonomy, could significantly reduce future calls on Commonwealth and state budgets into the future. The Union therefore takes this opportunity to raise concerns about local government financial issues, particularly in relation to rate pegging.

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<sup>13</sup> Government News, 24-25 August, Sydney,

<<http://www.governmentnews.com.au/2014/03/councils-slam-rate-pegging-slug-sa/>>

<sup>14</sup> NSW Independent Local Government Review Panel, *Revitalising Local Government: Final Report*, 2013, p42.

<sup>15</sup> Government News, 24-25 August, Sydney,

<http://www.governmentnews.com.au/2013/09/government-research-finds-rate-rises-more-popular-than-council-mergers/>

<sup>16</sup> Increased user charges was one of the findings on the impact of rate pegging, as identified in the final report of the Independent Pricing and Regulatory Tribunal of NSW (IPART), Revenue Framework for Local Government, Final Report 2009, p4.

<sup>17</sup> See Australian Local Government Association (ALGA), *Submission to the Taxation Issues Paper*, available online from [www.alga.asn.au](http://www.alga.asn.au).

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## Rate capping in Victoria

The website of the Department of Environment, Land, Water and Planning states that the capping of rates at 2.5% for the 2016-17 financial year is a “fairer rates system” compared to the way rates have “grown too quickly”.<sup>18</sup>

However this approach unfairly puts a squeeze on councils and their communities which need the additional injection of funds to provide needed services and infrastructure. This is particularly the case in regional and rural areas which are going through a tough time.

The ASU has seen how workers employed at rural and regional councils have had to carry the brunt of the government’s rate capping policy.

- Most recently, some councils have offered their staff a 0% pay increase during enterprise bargaining negotiations, which in real terms represents a wage cut. These agreements typically last for 3-4 years, meaning staff won’t get any pay increase at least until 2020.
- While the pay and conditions of workers have been cut, senior managers and CEO salaries continue to rise at pre-cap rates;
- Vacant positions are not replaced, seeing less employment opportunities in rural and regional areas restricted further from their already parlous state
- Where vacancies are filled, it is on a temporary or ‘labour hire’ basis. Local government has traditionally offered lower-paid employees employment security – rate capping has seen some parts of the local government workforce turn into labour hire and casualised areas
- Where jobs that provide labour intensive services, such as home care services, have opened and have not been filled the workload has been distributed to the remaining staff members. Yet what happens is that clients inevitably miss out because in a service as labour intensive as home care, workers cannot be at multiple clients’ homes at once. Thus less home care workers has seen less home care services for members of the community dependent on these services
- All councils have delayed replacing ageing infrastructure, meaning assets (chiefly roads and footpaths) get worse and the community must put up with it for longer until council generates the money to cover the cost of replacement
- New capital works projects are delayed with no indication of when the council could proceed

As some of these examples suggest, as more State Governments appear to be using rate caps for political purposes, it is ultimately at the expense of local services. A fairer approach would be to expect the State Government to adequately fund the gap caused by the rate capping policy and other cost shifting measures which put local governments under increased fiscal pressure.

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<sup>18</sup> Department of Environment, Land Water and Planning website  
<http://www.delwp.vic.gov.au/fairgorates>

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In addition, the State and Commonwealth government could, in fairness, completely fund welfare and concession expenditure as part of its efforts to address the vertical fiscal imbalance that exists between the different levels of government.

We note that rate capping had been introduced for a period in Victoria by the Kennett Government in the 1990s. However the policy was repealed in 1999 because of the failures of the policy. In particular, studies raised concerns about the impact that rate capping and other measures had on the management of assets and the increasing infrastructure backlogs.<sup>19</sup>

Whilst the Union understands that councils can make application to increase rates beyond the cap, the effort involved in this process is not an efficient use of resources and is not cost free. In addition, the process further inhibits the autonomy of councils and damages the direct accountability they have with their local communities.

In addition to the detrimental impact that rate capping has on the overall efficiency and effectiveness of local taxation, the measure leads to an increase in liabilities, inhibits infrastructure renewal and exacerbates the already inequitable arrangements which exist between the three governmental jurisdictions.

For our members employed in local government and spending wages in local communities, the policy is a threat to their employment security and the economic viability of local business. This situation raises much more cause for concern in regional and rural areas where populations are less dense and there are fewer customers to purchase local goods and support local community activities (such as those associated with schools, sporting groups and volunteer organisations).

Thus, potential loss of job security for council employees has a knock-on effect for local communities. The impact of which is amplified in rural and regional communities which are experiencing increased economic uncertainty. This is particularly the case at the present time where their produce (such as dairy and wheat) as well as other resources have been significantly affected by downward pressure on sale prices (both domestically and in the global arena).

Again I wish to thank the committee for providing the opportunity to provide some input in your deliberations. I and other ASU representatives would be please to meet with members of the committee to discuss this issue at greater length.

I am contactable via the ASU Member Contact Centre on 1800 133 096.

Yours sincerely,



**RICHARD DUFFY**  
**BRANCH SECRETARY**

<sup>19</sup> Department for Victorian Communities, *Sustaining Local Assets: Local government asset management policy statement*, December 2003, p6.

Authorised by ASU Branch Secretary, Richard Duffy

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