

Rural Councils Victoria (RCV) represents 38 rural councils in Victoria and welcomes the opportunity to make a submission to the Victorian Government's Local Government Rating System review. We believe that liveable, sustainable and prosperous rural communities are fundamental to the ongoing success of Victoria and would welcome the opportunity to present to the Rating System Review Panel.

RCV member councils comprise 11.5 per cent of the Victorian population, 77.2 per cent of the state's land area and 62 per cent of Victoria's local roads network.¹ The impact of a dispersed and small population spread over a large geographic area presents a number of challenges for rural councils in meeting the needs of its communities. These include:

- higher service costs per head
- a lack of economies of scale that are more easily achieved in metropolitan Melbourne and regional cities, and
- limited private sector presence and investment, leaving rural councils to provide services (particularly in aged care and childcare) to the community.²

Other challenges rural communities face include:

- an ageing population, which impact upon the scope and mix of services councils are expected to provide.
- greater levels of social disadvantage among rural communities in comparison to metropolitan municipalities. Residents in rural communities are also more likely to have poorer health outcomes such as higher rates of obesity, tobacco smoking and alcohol consumption. This creates greater demand for community and health services, often provided and/or delivered by rural councils.
- inadequate transport infrastructure which limits connectivity.
- poorer and lower quality digital connectivity, which can impact on service delivery and the application of technology-driven solutions. Certain rural communities also operate within mobile black spot areas.
- additional costs and/or demand placed on services and infrastructure due to specific locational factors, such as holiday peak crowds in coastal councils, or the presence of critical freight routes within a municipality.³

¹ Australian Bureau of Statistics, Cat. No. 3218.0 *Regional Population Growth, Australia*, March 2019; Victorian Grants Commission, Victoria Grants Commission, *Annual Report 2017-18*, pp. 44-45

² Parliament of Victoria, Environment, Natural Resources and Regional Development Committee, *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* (2018), p.23

³ KPMG, Local Government Victoria, Department of Land, Environment, Water and Planning, *Rural and Regional Councils Sustainability Reform Program – Stage 1 Project Report* (2017) p.7

Rural councils have small rate payer base which makes it difficult to meet the needs of their communities. Their resources are spread too thin, and there is growing evidence to suggest this is having an impact on community satisfaction. In the latest (2019) Local Government Community Satisfaction Survey, large and small rural councils had the lowest scores for overall satisfaction for performance out of all local government groups in Victoria.⁴

Rural Councils agree that rural communities should not be subject to ongoing high rate increases to provide a basic level of service. Currently the income mix for rural councils comprised of rates and federal and state government grants. Without any additional own source income there becomes a greater need for federal and state government grants.

In this environment, the current review of the State Government agency Regional Development Victoria (RDV) and no identified funding for RDV delivered projects and programs in the forward estimates of the last (2019-20) Victorian Budget adds uncertainty.

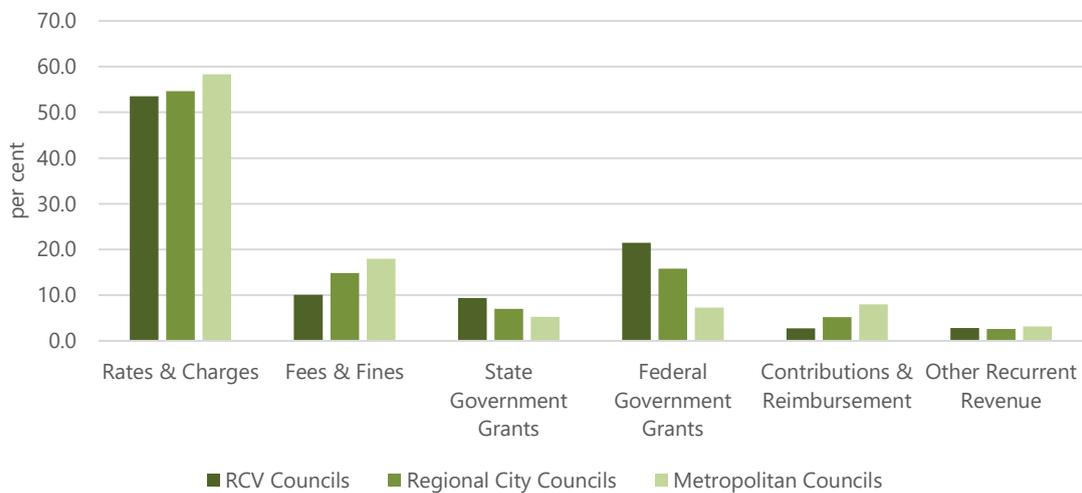
Reflective of the KPMG report commissioned by the State in 2017; Rural and Regional Councils Sustainability Reform Program (December 2017) RCV believes a broader taxation and funding model inquiry is necessary to address the serious issues facing rural councils in meeting the needs of their communities, so that they thrive and prosper.

Revenue from rates in rural Victoria

Rates accounted for 53.5 per cent of rural councils' revenue in 2017-18, a decrease from 57.6 per cent in 2015-16. The lifting of the indexation freeze of Federal Government Financial Assistance Grants (FAGs) in place from 2014-15 to 2016-17 has resulted in Federal Government grants comprising a higher share of rural councils' revenue.

⁴ 2019 Local Government Community Satisfaction Survey State-wide Report (2019), coordinated by the Department of Environment, Land, Water and Planning on behalf of Victorian councils, p.4

Chart 1: Local Government revenue streams, 2017-18



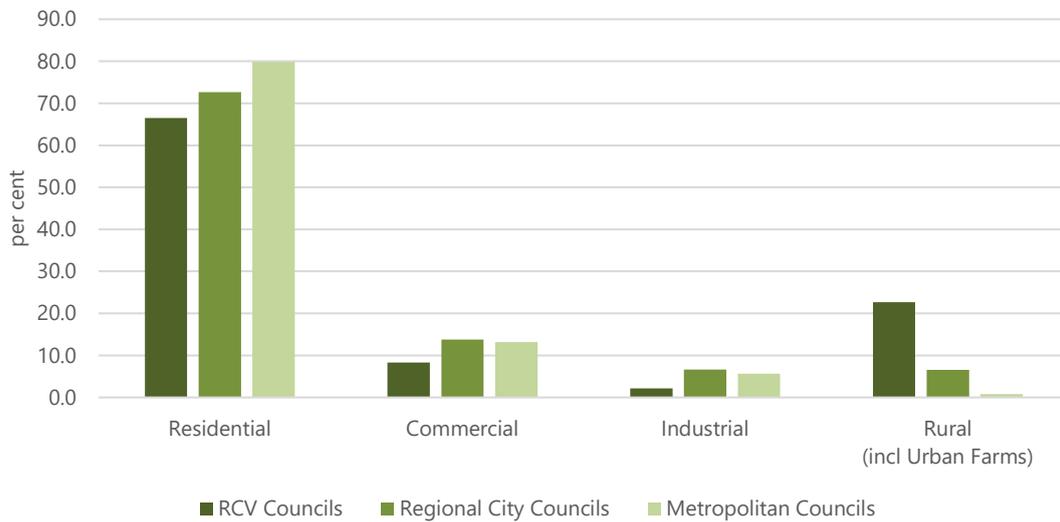
Source: Victorian Grants Commission, 2017-18 Council Data

The chart above also demonstrates that for rural councils, own source income (such as fees and fines) make a very small proportion of revenue.

In terms of the composition of council rates and charges, in 2017-18 the greatest proportion of rates came from residential households (66.5 per cent), followed by farming properties (22.6 per cent). While farming properties comprise 22.6 per cent of rate revenue when rural councils are combined, for certain shires the proportion of farming rate revenue is over 70 per cent.⁵

⁵ In 2017-18 these were West Wimmera (90 per cent), Yarriambiack (77 per cent), Towong (74 per cent), Hindmarsh (73 per cent) and Buloke (71 per cent).

Chart 2: Proportion of rates and charges by category, 2017-18

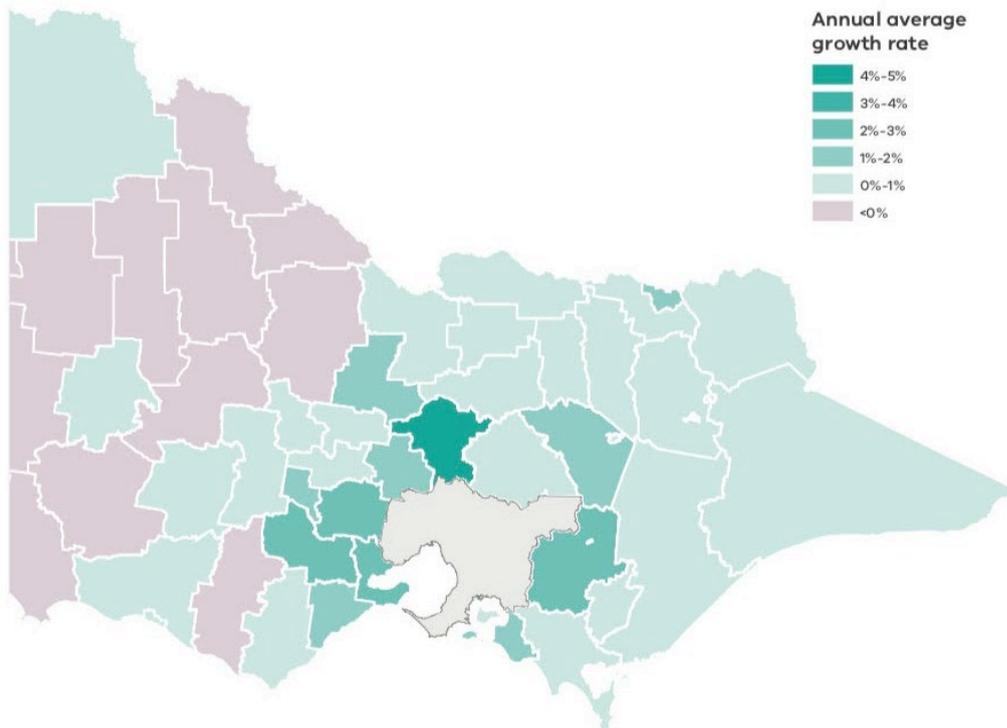


Source: Victorian Grants Commission, 2017-18 Council Data

The impact of low or negative population growth

Population growth rates across RCV member councils are considerably lower than the state and metropolitan Melbourne averages. According to the latest population forecasts, 30 out of the 38 RCV member councils will have a negative or low population growth rate (that is, under 1 per cent average annual growth) between 2018 and 2036.

Map 1: Annual average rate of population change, Regional Local Government Areas (LGA), 2018 to 2036

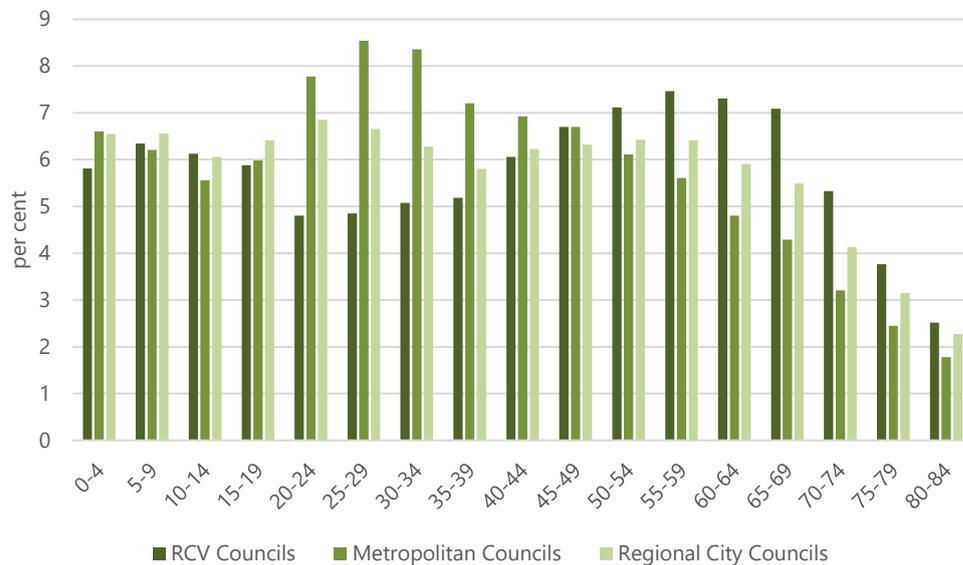


Source: Department of Environment, Land, Water and Planning *Victoria in Future 2019 Population Projections 2016 to 2056* (2019), p.5

The impact of the ageing population on rate revenue in rural Victoria

The population across much of rural Victoria is also an ageing one. While many rural LGAs have proportions of children and young people that are comparable to regional cities and suburbs across metropolitan Melbourne, the proportions of population within the key working age demographic of 20-50 years mostly declines in rural areas.

Chart 3: Population by age cohort, 2016



Source: Department of Environment, Land, Water and Planning *Victoria in Future 2019 Population Projections 2016 to 2056* (2019)

In 2016, 29 per cent of rural councils' population was aged over 60, compared to 18 per cent of metropolitan councils, and 23 per cent of regional city councils. However, the proportion of the population aged over 60 will increase to 34 per cent by 2036 (compared to 21 per cent of metropolitan councils and 28 per cent of regional city councils).

Population declines occurring across parts of rural Victoria do not mean councils' running costs are reduced. In fact, due to the demographic composition of rural Victoria, member councils are increasingly required to provide essential community services to their ratepayers including:

- aged care and disability services. A report recently commissioned by RCV on older persons services and accommodation found that home care for aged persons in rural Victoria is expected to increase by nearly 130 per cent by 2031.⁶
- early childhood services such as kindergartens, child care and immunisation programs
- libraries

Research into the key drivers behind migration to regional or rural Victoria found 'liveability' to be a major drawcard, represented by factors such as friendly communities, affordable cost of living and good quality education and health services.⁷ However these elements of liveability are hard for rural communities to maintain due to a small rate base and a declining population.

⁶ *Older Persons Services and Accommodation*, Version report prepared for Rural Councils Victoria, August 2019, p.4

⁷ Urban Enterprise for RCV, *Population Growth in Rural Victoria: Opportunities and Actions* (2018) p.26

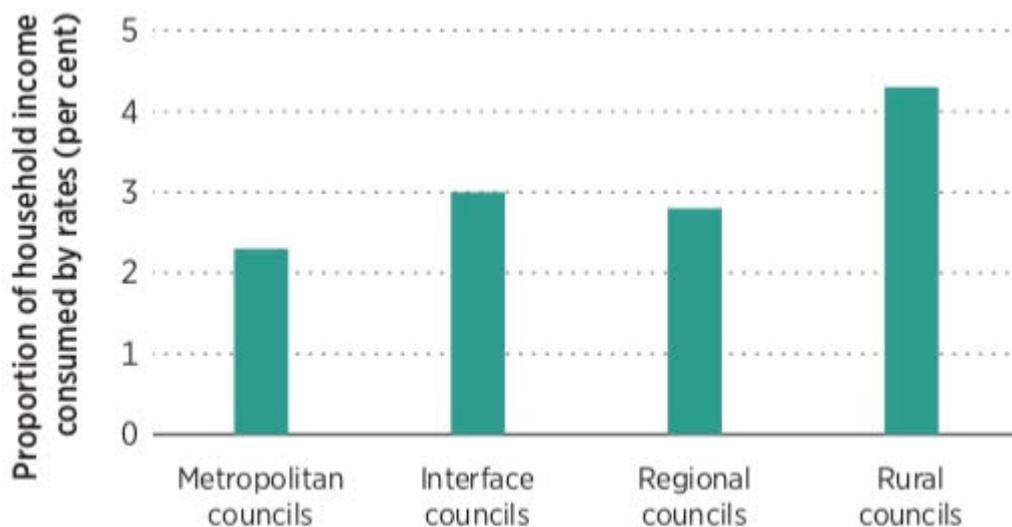
A recent survey of people living in rural Victoria conducted on behalf of RCV found 70 per cent of respondents would consider moving away to improve their access to services.⁸ Unless adequate investment in liveability is maintained for rural communities, people will inevitably move to bigger centres where services are available.

Rural councils need greater certainty regarding their funding model and revenue sources in order to provide essential services to their communities. High level and adequately-funded services delivery will not only lead to population retention, but will also attract new residents to rural Victoria, ultimately increasing the rate paying base.

Household wealth and the capacity to pay for rural Victorians

There is an issue of vertical equity, or capacity to pay, for ratepayers in rural Victoria. The Victorian Parliament's *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* noted that households in rural areas have lower incomes in comparison to other parts of Victoria, making the impact of council rates greater.⁹

Chart 4: Proportion of average households income consumed by council rates



Source: Parliament of Victoria, Environment, Natural Resources and Regional Development Committee, *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* (2018), p.10

Any changes to the current rating system that would see higher rates placed on residential and

⁸ Urban Enterprise for RCV, *Services for Liveability, Final Research Report* (2019) p.27

⁹ Parliament of Victoria, Environment, Natural Resources and Regional Development Committee, *Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils* (2018), p.10

farming properties in rural Victoria would not be fair or sustainable. There is concern amongst rural ratepayers regarding the variability caused by changes in property valuations for farming properties and how this may or may not impact rate increases as decided by Councils.

The way forward for funding rural councils

The reality is that rural councils do not have sufficient revenue to deliver essential services to their communities, and this is impacting on liveability of rural Victorians.

RCV will continue to advocate for State Government policies and strategies that promote and increase international and intrastate migration to rural and regional Victoria, providing a much needed population boost for these communities. Increases in population will ultimately increase the rate revenue base of rural councils will shift the balance and potentially decrease the reliance both federal and state government grants.

Increases in the rural Victorian population will also relieve the population growth pressure on metropolitan Melbourne and regional cities. It would also address critical skill shortages and gaps experienced in many rural communities, resulting in lost investment opportunities and constraining economic growth for the whole of Victoria.

While RCV welcomes this review into the rating system, the limited capacity for rural councils to raise own source revenue from within their own communities, together with their increasing reliance on federal and state government grants, means that it is not possible to assess the various components of council revenue in isolation.

The broader funding challenges facing rural councils which include but are not limited to just the rating system were thoroughly examined in the recent *Rural and Regional Councils Sustainability Reform Program* conducted by KPMG and commissioned by Local Government Victoria and the Department of Environment, Land, Water and Planning (DELWP). The report, published in December 2017, outlined a series of reform options that would ensure the ongoing financial sustainability of rural councils, including 'a taxation and funding model inquiry to support rural and regional council sustainability'. RCV calls on the Victorian Government to begin implementation of the report's proposed reforms, starting with the establishment of such an inquiry.