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Introduction

Nillumbik Shire Council representatives appreciated meeting with the Grants Commission in November last year, and the time the Commission gave both to outlining general grants matters and to answering the specific issues we raised in our submission last year.

In this submission, we raise three issues for the Commission's further consideration:

- Further information on the Green Wedge issues we have previously discussed with the Commission.
- Further discussion on the waste management issue, responding to the Commission's comments on last year's submission.
- Some concerns over the revenue adjustor that the Commission uses for the Aged and Disability Services function.

Green Wedge issues

Our submission last year brought to the Commission's attention some of the costs associated with the State Government's imposition of Green Wedge controls on Nillumbik.

90% of Nillumbik's land area is classified as rural and is located outside the Urban Growth Boundary. Much of this land comprises national parks, metropolitan water storages and catchments, large areas of remnant vegetation, smaller areas of agricultural production and larger properties with very little developmental potential under current planning legislation.

State policies such as *Melbourne 2030* recognise the importance of the Green Wedge as the 'lungs' of Melbourne. Nillumbik is a strong supporter of such environmental policy. However, it is also important to note that the policy imposes costs on Nillumbik, in two broad areas:

- Direct costs of land management and maintenance, which are documented below; and
- Indirect costs, from losses of potential revenue, as the planning scheme prevents development in many parts of the Shire – and indeed many rural properties are unable to intensify production or invest in complementary activities. The controls thus constrain Nillumbik's ability to raise its own revenues.

Our submission last year noted that Interface councils spend some \$4 million a year on environmental programs associated with the Green Wedge, especially targeting pests and weeds. In response, the Commission argued that this \$4 million was a very small proportion of council activities (less than 1% of rates revenues, and less than 0.5% of total expenses for the Interface councils). In consequence, the Commission argued that the expenses were not sufficiently material to be given a special weight in the methodology.

As foreshadowed last year, Nillumbik has investigated the direct costs associated with the Green Wedge in more detail. This has given the following figures.

Land Management and Biodiversity – Private Land	\$
Rebate provided to land owners	100,000
Programs	195,000
Grants to Landcare and support groups	47,000
Pest animal and weed control	125,000
Staff costs	231,000
Total	698,000
Green Wedge aspects of Park Maintenance – Public Land	
Tree canopy as carbon sink – maintenance of existing tree population and replacement tree planting	171,000
Pest and weed control	8,000
Preservation of indigenous vegetation for biodiversity – maintenance and enhancement of wetlands	36,000
Staff costs to supervise above programs	19,000
Total	234,000

The overall total of these programs is \$932,000, around 2% of total expenses of \$48.1 million in 2006-07. As the Commission uses nine expenditure functions, this could represent some 20% of costs in a particular function, which is significant.

In addition, Nillumbik, as a green wedge shire with significant environmental reserves, also provides a significant opportunity to support the State Government's Net Gain Policy which was introduced in 2002 and is underpinned by the government's Native Vegetation Framework. As areas within metropolitan Melbourne face pressures for urban development, locations within Nillumbik will become attractive locations for implementing native vegetation offsets. Whilst financial contributions may be sought for the implementation and the monitoring of offsets, Council has recently identified significant resources will be required to identify both public and private land that may be suitable for the direct offsets as well as establishing management and monitoring processes equivalent to a Bush Broker scheme.

Furthermore Nillumbik is unable to encourage development in many parts of the Shire due to the Green Wedge constraints, and this has caused Nillumbik to lose significant potential rates revenue (or incur indirect costs).

This can be illustrated for residential properties. An average size of a residential property in our neighbouring councils would be around 500-600 square meters, however in Nillumbik the average is some 1,000-1,200 square metres. If Nillumbik had the same development flexibility as many other councils, we could possibly double our number of residential properties, which is currently around 19,600. Assuming an average residential house costs \$250k to build, at our current rate in the dollar this would give Council an additional \$20.7 million per annum, or 61% of Nillumbik's total annual rates revenue. This is not to suggest that Nillumbik should not be part of Green Wedge, rather it is an observation of the significant impact that Green Wedge has on Nillumbik's revenue generating capacity.

Nillumbik has discussed how best all the costs, both direct and indirect, could be treated in the Commission's methodology. It appears that such costs are not just a feature of the Green Wedge planning controls – they are faced by other councils with extensive areas under State-imposed controls or ownership.

One possible way of recognising this issue is through the governance function. A new cost adjustor could assess the area of land within each council area that is either in State ownership (national parks, reservoirs and the like) or subject to rigorous State planning controls that limit development (such as the Green Wedge Zone and the even more stringent Rural Conservation Zone which is extensive in Nillumbik).

Nillumbik asks the Commission to consider this matter further.

Waste management

In last year's submission, Council requested that the Commission review the cost adjustors for waste management. We noted this composite cost adjustor is based on:

- 50% population dispersion (to acknowledge the additional costs faced in providing services to a number of communities within a council area).
- 30% scale (to acknowledge the economies of scale in providing waste management services).
- 20% population density (to acknowledge additional costs of providing services in heavily built up areas).

We argued that the pattern of actual costs of waste management across Victoria supports the use of the first two of these elements. However, there is little actual evidence that population density does increase costs, while no account is taken for the fact that a higher average household population will incur higher waste management costs, or for the additional costs faced by councils that provide urban standard services in both urban and fringe rural areas.

Council also documented Nillumbik's costs in providing services to urban and rural areas, showing that a standard service costs some 26% more per bin in rural areas.

In its response in November last year, the Commission argued that the appropriate method of assessing this issue is to look at the ratio of the NSE allowed for each category of council per unit of expenditure, compared with actual net expenditure by that category. Using the 2006-07 data (the first data column in the below table) the Commission suggested that interface councils were generally over-compensated for waste management costs.

The table shows this measure (NSE calculated by the Commission, divided by actual net expenditure per unit) for 2006-07 and the preceding and following years.

	VGC response 2006-07	2005-06	2007-08
Metro min grant	1.134	1.045	1.127
Metro other	1.033	1.008	1.036
Interface	1.070	0.991	0.946
Regional centres	0.828	0.913	0.846
Large rural		0.969	0.963
Small rural	*0.952	1.111	1.054

* the Commission response did not give figures for both large rural and small rural, just this figure which it refers to as 'small rural'. The figure seems closer to that for large rurals in other years.

The data shows some volatility between years. However, looking over the three years:

- Inner Melbourne councils are clearly over-compensated in the formula, supporting our contention that the population density measure is not appropriate.
- On average, and in two of the three years, interface councils faced higher costs than metro – other councils.
- The other two council groups (regional centres and large rural) which deliver urban standard services to fringe rural areas are both under compensated in the current formula.
- Small rural councils (which generally do not deliver regular pick up services in rural areas) are overcompensated by the current formula.

Nillumbik maintains our position that the NSE formula should take account of the additional costs faced by councils that have a higher capita per assessment ratio and for councils providing urban standard services into more expensive rural areas. Council notes the Commission's comment that this reflects council policy decisions. While this is undoubtedly true to some extent, the above ratios show that these services are delivered by most councils in similar situations – the services are more a response to common resident demands across the state than they are policy decisions of individual councils.

The Commission response also indicated a reluctance to use councils' own data in calculating a cost adjustor. Council thinks that actual distances travelled by collection trucks is still the best measure, and the cost adjustor should also consider the population per assessment. It is indisputable that households with more residents will generate more waste than those with fewer residents, leading to higher costs to Council. An alternative which should produce a similar result would be to calculate waste management costs per residential assessment, rather than use all assessments as is currently done. This would reflect the reality that most non-residential properties do not use the waste services.

Nillumbik requests that the Commission review this issue further.

Revenue adjustor for aged and disabled services

Nillumbik requests that the Grants Commission review the revenue adjustor it applies to Standardised Fees and Charges for the Aged and Disabled Services revenue function. Currently, the Commission uses median household income for households in the 60+ age group for the adjustor. Council requests that the socio-economic index (which is already used for the Family and Community Services function) be used instead.

Council has two objections to the current adjustor:

- On demographic grounds, it appears that the index measures more than just average incomes; and
- On practical grounds for the VGC analysis, the index does not give a good range across different councils – but does seriously disadvantage Nillumbik.

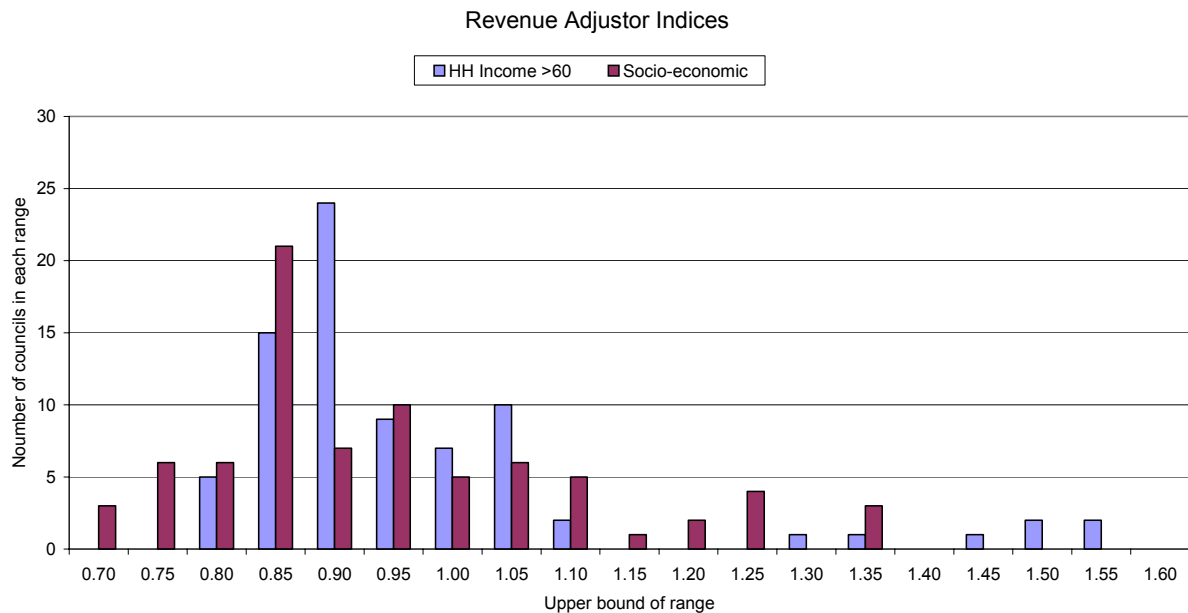
On first impression, median household income for households in the 60+ age group appears to be a good measure of relative needs in this population group. Higher income households have a greater capacity to fund their own services, and thus should create less demand for council aged care services.

However, household income does not just reflect average income levels – it also reflects the number of people in the household. For example, couple pensioners receive more income than single pensioners do.

According to the Department of Human Services¹, life expectancy is higher in areas of higher socio-economic status. For example, Nillumbik has the highest male life expectancy of any local government area in Melbourne – 80.6 years at birth. The lowest male life expectancy is found in Maribyrnong, at 74.8 years.² The difference between the two figures suggests many more single person (predominantly female) households in the 60+ age group will be found in Maribyrnong than in Nillumbik.

The use of the 60+ household income figures appears to involve a double counting of socio-economic status, firstly on average personal incomes and secondly on household size³. Nillumbik contends that a fairer approach would be to use the socio-economic index.

The second problem area with the use of 60+ median household income is a more practical one: the revenue adjustor has a strange distribution. This revenue adjustor is compared with that for socio-economic status in the graph, which shows the number of councils with adjustor measures in 0.05 ranges (ie the first range is 0.65 to 0.70, the second 0.70 to 0.75 and so on).



The graph shows two differences between these distributions:

- Probably because of the problem with double-counting socio-economic status in the measure, councils in the highest socio-economic areas have very high measures on the household income measure, which extends much further to the right than the socio-economic measure does (five councils have adjustors greater than 1.40, compared with none on the socio-economic measure).

¹ See life expectancy data in 'Burden of Disease' site on DHS website. Data for 2005.

² There is also a difference between female life expectancies, but this is much smaller between these lgas: 85.4 in Nillumbik, compared with 83.4 in Maribyrnong.

³ A more direct way of confirming this situation would be to compare for each local government area the household sizes for populations over 60. This possibility was discussed with the Australian Bureau of Statistics, but the data is not readily available, and would require special runs on Census data.

- Related to the first point, the rest of the household income distribution is tightly compressed, and in fact does not give a lot of difference between most councils⁴.

There is a further implication here, specifically for Nillumbik. As shown in the graph, the household income measure gives very high adjustors for the top few councils. However, with one exception, all these councils are minimum grant councils, so the use of the measure does not have a material effect. The one exception is Nillumbik, which receives a disadvantage of a rating of 1.43 on this measure compared with 1.22 on the socio-economic adjustor. The next highest non-minimum grant council on both scales is Whitehorse – receiving 1.06 on the household income scale and 1.11 on the socio-economic adjustor.

Nillumbik argues that the use of median 60+ household income as the revenue adjustor for the aged and disabled services function is flawed both on consistency and practicality grounds – and has an especially disadvantageous impact on this council. We ask the Commission to review this revenue adjustor, and replace it with the socio-economic measure used in other parts of the Commission's methodology.

Issues for further consideration

In addition to the matters outlined above, Council also requests that the Commission consider undertaking further research and analysis in relation to wider issues as raised in Council's meeting with the submission in November 2007.

As explained at that meeting, Council supports the Green Wedge status of Nillumbik in terms of planning and environmental policy. However, this status constrains our capacity to service the community and provide effective stewardship of the Green Wedge. Nillumbik's unique features mean that we face even more challenges (economies of scale, household size) than do other green wedge municipalities.

Council and our ratepayers are making substantial efforts to meet the needs of the Green Wedge. Our residents are contributing on average the highest rates per household in Victoria. Yet our expenditure per head is well below average, with many of our service demands targeted to the needs of people rather than properties. At present, Nillumbik's total expenditure per capita (recurrent plus capital outlays) is some 42% below the Victorian average.

While the average regional and rural Council in Victoria generates 32% of revenue from grants, Nillumbik (which is 90% rural) only receives 19% of revenue from grants, and is ineligible for many grant programs that are allocated to rural municipalities.

⁴ Excluding the top 7 councils in each distribution, the ranges are 0.75 to 1.10 for the household income measure and a much wider 0.65 to 1.20 for socio-economic. In statistical terms, the standard deviation for the socio-economic measure is 11.7%, while for the household income measure it is a much smaller 7.7%. As discussed below, Nillumbik is the only Iga in the top 7 on either measure that is not a minimum grant council.

Council cannot substantially grow the rate base (due to our Green Wedge status), and with rates per assessment already high, we have limited scope to increase revenue to the levels available to the average Victorian municipality on a per capita basis.

Council requests the Commission to examine these issues in its ongoing research to explore how more equitable approaches could be found.