Growth Study

Report

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		Name	Joan Ko Kara Brussen	Joan Ko	Rob Turk
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		Name	Ben Mason, Joan Ko	Joan Ko	Rob Turk
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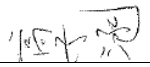
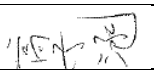
		Name	Amy Cox	Joan Ko	Joan Ko
		Signature			
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Executive Summary

On behalf of the Essential Services Commission (ESC), Arup has undertaken a research study as recommended by the Fair Go Rate System Independent Review 2016:

> 'Section 5.1 iv A review is undertaken into any special financial issues associated with growth area councils.'

In the decade to 2015, Melbourne's population increased by almost one quarter. The growth areas (municipalities at Melbourne's urban growth boundary) have accommodated approximately half of that overall growth, growing by 46% during that time.

The following questions frame the results of our review:

1. Are councils required to spend more when they are growing in population terms, compared to when population is stable?
2. Are growth area councils managing their resources efficiently?
3. Are councils using debt effectively?
4. Under what circumstances might it be appropriate for growth area councils to increase their rates revenue beyond the cap?

1. Are councils required to spend more when they are growing?

In consideration of the evidence gathered, our view is that the councils of growing municipalities do require more financial resources compared to non-growth councils.

In the case of growth area councils, capital expenditure associated with growth comprises at least a quarter of the council's budget. Our view is that this is a substantially different dynamic to that of other organisations (e.g. utilities) that historically have been managed through price cap regulation. Such organisations typically experience stable growth (less than 3%) and their performance is driven by service provision and asset replacement.

We believe that the main financial impact of population growth is due to the expenditure (or more correctly, the investment) required for delivering new assets such as roads and buildings.

We did not draw any clear conclusions on whether or not there are special financial impacts related to providing services to populations in growth areas (for example, due to the long distances at the urban boundary, household demographic or income distribution in the growth areas).

2. Are growth area councils managing their resources efficiently?

Our view is that it is likely that councils still have room to increase the efficiency and effectiveness of their organisations.

We believe there is value in councils adopting best practice asset management approaches to:

- Improve the efficiency and effectiveness of infrastructure delivery
- Build organisational capability
- Demonstrate that a council has a comprehensive / total view of its planning and management process as required in an application for a higher cap.

Around a quarter of a growth area council's business (as measured by expenditure) is capital works – that is, asset management and delivery. Asset management and infrastructure development is a strategic objective that local government shares with other sectors, including within government.

An effective asset management approach will support specific efficiency initiatives identified in our review including: making full use of council income; better procurement; and testing alternative infrastructure delivery approaches.

3. Are councils using debt effectively?

Stakeholders presented conflicting views on whether or not a new precinct or community could, in time, entirely fund its own infrastructure through rates and charges drawn from within its boundaries.

Following our review of three development case studies in growth area councils, we believe that it is possible to use debt financing to bridge the gap between capital expenditure today and the income to be raised from residential rates and charges in the future.

Our view is that debt financing of infrastructure is usually more equitable and more efficient than 100% accumulation of funds prior to infrastructure delivery.

There is a need for community conversation about debt. If a council is applying for a rate cap variation on the basis of growth, it must demonstrate that the council's discussion with the community on the trade-offs between rates, charges, fees and debt has been robust and that the community has made an informed choice.

4. Under what circumstances might it be appropriate for growth area councils to increase their rates income beyond the cap?

On the basis of the discussion in this paper, Table ES1 provides a series of questions to assist the ESC and applicant council to discuss the impact of growth on council finances. A council's responses to these questions and appropriate supporting documentation could support the ESC in determining whether or not councils have made full use of relevant best practices in managing growth, before resorting to an increase in the rates cap.

Table ES1 Recommended questions and example responses

	Question	Circumstances that potentially warrant a variation to the rates cap	Relevant report section
1	What is the rate of population growth in your municipality over the next four years?	We expect that population growth greater than 3% per annum may present challenges to staying within the rate cap.	2.1
2	What percentage of your expenditure is related to the delivery of new infrastructure: a) capital works b) salary for staff in primarily asset management and delivery functions	This is likely to be at least 30%. The higher the percentage, the greater the required variation from the rate cap. We believe that the infrastructure delivery component of a growth area council's budget is what will drive deviations from the rate cap.	2.2
3	What is your approach to asset management and delivery?	We expect that a council that is effective and efficient will have a systematic approach to the elements of ISO 55000 *Asset Management—Overview, principles and terminology*, and have a unified organisational focus on infrastructure planning and delivery.	3.2
4	What alternative infrastructure delivery models have you considered?	If a council has nominated specific priority projects, then we expect council to have undergone a systematic options evaluation which covers non-traditional approaches such as temporary solutions and regional scale delivery.	3.4
5	Have you made full use of the available income?	We expect that councils will describe their approach to: • Actively managing Developer Contribution Plans and Infrastructure Contribution Plans • Timely supplementary valuations • Nuanced investigation, testing and consultation of the community's ability to pay for different services and acceptable / fair levels of user subsidy. • Developing a feasibility study for the use of special rates schemes in growth precincts.	3.3
6	What is your approach to debt? How much and what type of debt have you considered?	We expect that a council will have a policy around debt financing, including principles of equity and efficiency, and acceptable impacts on its operating budget. Councils should also be able to demonstrate they have a detailed understanding of the types of loans available and how it can access finances cost-effectively.	4.3

	Question	Circumstances that potentially warrant a variation to the rates cap	Relevant report section
7	Have you had a robust consultation process that included discussion with the community on the trade-offs between facilities and services, charges, rates and debt?	We expect a council will have explicitly informed the community of the funding options and levels of services available to it, and that the community has understood that council considers increased rate payments as a fundamental strategy for funding growth. This requires a truly informed discussion with financial transparency and genuine responsiveness by council.	4.4

1 Introduction

1.1 Purpose

On behalf of the Essential Services Commission (ESC), Arup has undertaken a research study as recommended by the Fair Go Rates system Independent Review 2016[1]:

> 'Section 5.1 iv A review is undertaken into any special financial issues associated with growth area councils.'

In the decade to 2015, Melbourne's population increased by almost one quarter (23%, almost 827,000 people).[2] The growth areas (municipalities at Melbourne's urban growth boundary) have accommodated approximately half of that overall growth, growing by 46% during that time.

This is the final report of the ESC growth study. It has been developed to inform the ESC's determination on rate cap variation applications.

The following questions frame the results of our review:

1. Are councils required to spend more when they are growing in population terms, compared to when population is stable?
2. Are growth area councils managing their resources efficiently?
3. Are councils using debt effectively?
4. Under what circumstances might it be appropriate for growth area councils to increase their rates revenue beyond the cap?

This report is structured around the above questions, with details of research results in the appendices.

1.2 Methodology and stakeholder consultation

Table 1 below outlines the stages of our research study. Stakeholder consultation has been a key source of information. We thank the following stakeholders who have provided data and staff time to this project:

- Growth area councils: Cardinia, Casey, Hume, Melton, Mitchell, Mornington Peninsula, Whittlesea and Wyndham
- Victorian Planning Authority
- Local Government Victoria
- Victoria Grants Commission

[1] Brown P (2016), Fair Go Rate System Independent Review, available at http://www.esc.vic.gov.au/wp-content/uploads/2016/10/Fair-go-rate-system-independent-external-review-20160927.pdf, accessed on 3 March 2017
[2] Australian Bureau of Statistics (2016), 3218.0 Regional Population Growth, Australia

- National Growth Areas Alliance
- Municipal Association of Victoria.

Table 1 Growth study methodology

Stage	Methodology
1. Initiate	
Data and literature collection	We collated quantitative data (income, expenditure, demographic forecasts, and economic activity), literature, legislation, policies, strategies, plans and case studies. This included working with the ESC to collect annual returns to the Victoria Grants Commission, annual report and budget data, Local Government Performance Reporting Framework data and Victorian Auditor General's Office data. In addition, we worked with the participating councils to collect additional financial, development, demographic and property rates data, where this was not publicly available.
2. Review	
Desktop review	We reviewed published reports (refer to Appendix F) and data available through Arup's previous projects to identify existing conditions, trends and drivers of changes. Relevant sources included information and assessment from the National Growth Areas Alliance, regional development agencies and alliances including reports published by the Interface Councils. Information specifically relating to the rate capping policy was also reviewed, including higher rate cap application and Environment and Planning Committee reports.
Modelling of historic and forecast data	We analysed council data to identify trends across growth area councils, with a particular emphasis on the relationship between population and council finances. We also interviewed councils to prepare case studies for three development precincts. These case studies included infrastructure costing data.
Interviews and workshops with participating councils	We used the findings of the desktop review and analysis to structure interviews with participating councils. The interviews focussed on stakeholder feedback on the findings to date, as well as current practices for managing growth. We identified common and divergent themes from the interviews and use these as a basis for a workshop with the participating councils. The purpose of the workshop was to share experiences across councils and identify best practice management approaches to growth.
Interviews with other stakeholders	We interviewed non-council stakeholders including Local Government Victoria, Victoria Grants Commission, Victorian Planning Authority, National Growth Areas Alliance and Municipal Association of Victoria.
Online survey of non-participating councils	Alongside the in-depth consultation with participating councils, we also invited input from all Victorian councils through an online survey. The survey results provided insight from metropolitan and regional councils, which did not participate in the interviews and workshops.

Stage	Methodology
3. Assess	
Growth traits, challenges and responses	We identified: • Traits in growth experienced by different municipalities and their resulting impact on council finances. • The nature of the challenges in different growth scenarios. • Current management responses and how these are differently used across councils. • Best practice management approaches in response to growth challenges. • Draft recommendations for participating councils. We drafted a list of questions and responses to assist the ESC and applicant council to discuss the impact of growth on council finances and support the ESC in determining whether or not councils have made full use of relevant best practices in managing growth.
Feedback from participating councils	We gathered feedback on the discussion paper via email from council representatives.
4. Present	
Final project presentation and report	We prepared this growth study report which outlines the methodology, findings, results and recommendations of the project.

It is worth noting that although population growth is being experienced across Victoria (inner urban, outer urban and rural/regional municipalities), this study has largely focused on the growth area councils (also called 'interface councils'). With the exception of Mornington Peninsula Shire, all the municipalities of the participating councils have experienced population growth above 2.5% per annum for the past decade. This is shown in Table 2, along with the growth rates of two comparison municipalities:

- Boroondara – a municipality experiencing relatively little growth
- Moreland – an established municipality experiencing infill growth.

Table 2 Average annual population growth by municipality[3]

Municipality	Type	Average population increase per annum (2005 to 2015)
Growth area councils		
Wyndham	Growth area	6.8%
Melton	Growth area	6.0%
Cardinia	Growth area	5.1%
Whittlesea	Growth area	4.5%
Casey	Growth area	3.2%

[3] Australian Bureau of Statistics (2016), 3218.0 Regional Population Growth, Australia

Municipality	Type	Average population increase per annum (2005 to 2015)
Hume	Growth area	2.7%
Mitchell	Growth area	2.5%
Mornington Peninsula	Outer metropolitan	1.2%
Comparators		
Moreland	Inner metropolitan	1.8%
Boroondara	Middle metropolitan	1.0%

Although we often describe the 'growth areas' as if they were a single category, it is possible to further characterise municipalities depending on their phase of growth (Table 3). Any 'special financial issues' related to growth may therefore affect individual growth area councils to varying extents.

Table 3 Challenges of different growth phases

Growth phase	Challenges	Examples
Early in growth phase, previously rural and now urbanising	Sealing unsurfaced long distances of roads. Organisational change, including new staff, skills and systems to respond to increased activity. Funding higher capital and human requirements ahead of residential rates. Acceptability of development with established townships, including the justifying increase in rates/charges to service development fronts far away.	Mitchell[4], Cardinia
Midway through growth, has experienced growth over a long time and expect it to continue	Complexity of managing multiple development areas at different stages. Long periods before development fronts reach full build out and therefore intervening stages where facilities are operating sub-optimally. Increased outlay as demand for regional scale infrastructure increases rapidly.	Casey, Wyndham
Mature growth suburb	Substantial backlog of ageing infrastructure that needs replacement or renewal.	Hume, Moreland

To gain an understanding of the general issues relating to population growth, we also invited all councils across Victoria to respond to a survey. The results of the survey are in Appendix C. We have used the feedback participating councils and surveyed councils throughout our report.

[4] Currently, Mitchell Shire maintains 641km of sealed roads and 715km of unsealed roads ('Roads and infrastructure, available https://www.mitchellshire.vic.gov.au/services/building-planning-and-transport/roads-infrastructure, accessed 19 May 2017)

2 Are councils required to spend more when they are growing?

2.1 Summary

In consideration of the evidence gathered, **our view is that the councils of growing municipalities do require more financial resources compared to non-growth councils.**

The key points of this section are as follows:

- There are additional costs associated with **infrastructure delivery** (largely capital expenditure).
- However, it is inconclusive that there are additional costs associated with **service provision** (operating and maintenance expenditure).

2.2 Infrastructure delivery

Our view is that the main financial impact of population growth is due to the expenditure (or more correctly, the investment) required for new assets such as roads and buildings.

Capital works accounted for 20-25% of interface council budgets in 2015/16.[5] The factors that drive the financial impact of infrastructure delivery include:

- **Costs of establishing infrastructure** (we believe this to be the most significant factor)
- Challenges of growth at the urban boundary
- Costs related to the transition from the rural to urban condition.

2.2.1 Costs of establishing infrastructure

Our view is that the scale and speed of greenfield development means that the cost impacts of growth at the urban boundary presents more financial challenges to councils than those currently faced by inner urban councils.

The literature indicates that development of new infrastructure for greenfield lots costs two to four times more than infill, depending on the capacity of existing infrastructure.[6]

Because of residual capacity in existing facilities, services and infrastructure, inner/middle ring councils have more flexibility in timing infrastructure delivery

[5] Local Government Victoria (2017), feedback on Arup draft report, received by email on 27 March 2017

[6] SGS (2016), 'Comparative costs of urban development: a literature review', available at http://yoursay.infrastructurevictoria.com.au/30-year-strategy/application/files/1714/7546/2887/SGS_Economics_and_Planning_-_Comparative_costs_of_infrastructure_across_different_development_settings.PDF, accessed 21 March 2017

compared to growth area councils, which are managing newly developed areas with fewer nearby existing facilities.

Figure 1 shows the statutory obligations for funding growth. Council takes the lead on infrastructure items including local roads, social infrastructure, open space and recreation.

For councils growing at a rapid rate, the requirement for new regional-scale infrastructure also become a pressure, as the scale of growth triggers the need for major facilities. There is some funding available for these facilities through Growth Areas Infrastructure Contributions and government grants. However Councils make up any gap in funding using rates and charges to wholly or partly fund new regional facilities.

This is despite the distinct challenges faced by inner urban councils (refer to Box 1).

Figure 1 Funding obligations for infrastructure[7]

Infrastructure Item	DCP #	Open Space*	GAIC # & IGF	Council	State	Federal
Arterial Roads						
Initial Construction (Land and 1st Carriageway)	✓					
Duplication				✓	✓	
Council roads and backlog				✓		✓
Declared State arterials			✓		✓	
Local Roads						
Initial Land and Construction	✓			✓		
Upgrades and backlog				✓		✓
State School						
Land			✓		✓	
Construction/Extension			✓		✓	
Library (Land and Construction)			✓	✓	✓	✓
Pre-School, Health and Community Centres					*	
Land	✓		✓	✓		
Construction/Extension	✓		✓	✓	✓	✓
Public Transport						
Stations (Land and Construction)			✓		✓	
Rail duplication/electrification					✓	
Bus routes and stops	✓		✓		✓	
Parks, bike paths and conservation reserves		✓	✓	✓	✓	
Local Sports Fields (Land and Construction)	✓			✓	✓	
Regional Sports Fields (Land and Construction)			✓	✓	✓	✓

Developers can deliver infrastructure from DCPs or GAIC through Works in Kind agreements.
* Open Space Contributions can be provision of land or cash offset.
*Council preschools/early childhood facilities are sometimes located on new school sites.

[7] DELWP, 2015, *Background paper 1: Managing growth – Infrastructure for Melbourne's outer suburbs',* State Government of Victoria, Melbourne

Box 1 Challenges of growth in inner urban contexts

- Costs related to land remediation, as brownfield development often occurs on sites that were previously commercial/industrial land.
- Flood management related costs, as highly urbanised areas are often serviced by inadequate drainage.
- Site constraints, including managing logistic around existing assets and features of a site.
- Difficulties achieving economies of scale. Development in brownfield areas in Melbourne has tended to be fragmented as development occurs only when sites become available over time.

Despite the above distinct challenges, the fragmented nature of inner urban development means that council's responses can be more incremental and planned than that of growth area councils.

2.2.2 Challenges of growth at the urban boundary

We heard from participating councils that development at the growth boundary is challenging because of the propensity for 'out-of-sequence' development. **Our view is that although this provides additional challenges for interface councils, there are ways to manage the associated costs.**

Councils noted that once planning approvals are granted[8], then the rate of dwelling completion is driven by market conditions. This means that new residential populations may be established at some distance from each other and from existing urban fronts. Councils stated that they are limited in their ability to agglomerate facilities and may need to deliver services in a sub-optimal way until developments achieve critical mass or development fronts join together.

There are ways to manage this inefficiency including:

- Ensuring that Infrastructure Contribution Plans (ICPs)[9] account for the potentially higher costs of interim facility provision
- Being more directive over what works will be credited under Development Contributions Plans (DCPs) and ICPs (refer to Section 3.3.2 for more detail)
- Making use of interim/temporary solutions that are less capital intensive than final solutions (see below)
- Influencing the location of growth by making some development areas more attractive (see below).

[8] Councils are required to determine a complete planning application in 60 statutory days.
[9] The new Infrastructure Contributions Plans (ICP) replaced the Developer Contributions Plan scheme on 27 October 2016.

Interim / temporary facilities

Councils described how they sometimes established facilities that exceeded the minimum facility standards used by the Victorian Planning Authority (VPA), in anticipation of future population growth (e.g. larger community centre than required) (refer to Appendix E for facility triggers). This was understood to be a good practice approach to lifecycle costs.

An alternative approach was described by Peter Brown, former CEO of Moreland. In a development area of Benalla, instead of establishing the end-state community centre, Council bought a house and operated it as a temporary community centre. When council had accumulated the funds for the full community centre and at the point when the catchment population required the larger facility, Council sold the house at a profit and built the community centre.

The use of small scale interim solutions such as this (and possibly renting space from commercial or public facilities in the area) provides council flexibility during the uncertain process of precinct development.

Influencing the location of growth

In the interest of consolidating development activity and therefore reducing the cost of infrastructure and service delivery, some councils communicate to the development sector their priority locations for facilities. This makes some development locations relatively more attractive to the market. Refer to Box 2 for details on Wyndham's Growth Management Strategy and how council encourages in-sequence development.

Box 2 Wyndham Growth Management Strategy

In 2016, Wyndham City Council published its Residential Growth Management Strategy (RGMS), an update to the 2012 version. The RGMS provides direction for managing growth in the council, focusing on timely infrastructure delivery and opportunities for local residents and businesses. Crucially, the RGMS sets out solutions to promote mutually beneficial alignment between residential development and infrastructure provision, and outcome to be expected from managing growth for different stakeholder (including the community, government and developers).

The misaligned pace of urban expansion and infrastructure planning, and fragmented spread of new development fronts, has resulted in financial viability of infrastructure provision being undermined. The RGMS acknowledges that all three levels of government have a part to play in contributing to orderly and efficient development that benefits both current and future residents. Wyndham's RGMS comprises three key elements:

1. Active management of the number of areas under development at any one time. The 'Benchmark sequence of development' will help to achieve this, by reflecting infrastructure planning at a local and state level. Regulatory tools such as financial incentives and disincentives will be pursued to further manage this.
2. Work to optimise densities for achieving community benefits and economies of scale in delivering infrastructure, especially public transport.

3. Require proponents to build viable communities and compensate for additional costs associated with bringing forward infrastructure. When a proposed variation from the agreed sequence (point 1) is expected to result in extra costs, proponents must prepare a cost impact assessment. Effected through a Section 173 agreement (Planning and Environment Act 1987), the method of compensation for additional costs will be a matter of negotiation between the proponent and affect agency.

   By making the approval process of out-of-sequence development clear and transparent, Wyndham's RGMS can be expected to inject greater competition into the land market. This strategy will also enable governments to efficiently deliver on their commitments to ensure that new communities are serviced with adequate infrastructure in a timely manner.

2.2.3 Costs related to the transition from the rural to urban condition

Based on our discussions with councils and the survey results, **our view is that the growth councils at the early growth phase are likely to face greater infrastructure financing challenges than those growth councils currently at the mid-growth or mature growth phases.**

This is because newly-growing councils have less rates revenue to draw on to:

- Make loan repayments (see for example Cardinia and Mitchell's indebtedness relative to the other participating councils as discussed in Section 4.2)
- Employ staff to manage complex growth issues ahead of the development taking place
- Upgrade rural roads.

As shown in Figure 1, councils take a leading role in delivering local roads. For councils transitioning from rural to urban land uses, roads upgrades are a key concern. Mitchell and Cardinia described the costs of sealing roads and setting up costly temporary access arrangements so that residents can reach facilities and services.

In response to our council survey, growing rural councils identified the key challenge of lack of skilled staff and difficulty in attracting these people to the area.

2.3 Service provision

Based on the evidence gathered, **we did not draw any clear conclusions on whether or not there are special financial impacts related to providing services to populations in growth areas.**

Although there are a number of potential mechanisms that might make service provision more challenging for growth area councils than non-growth area councils, there was insufficient evidence to demonstrate the significance of those effects.

Potential mechanisms include:

- Additional costs due to increasingly long distances and large areas associated with growth at the urban boundary
- Lower socio-economic demographics of the resident population
- Younger age demographic of the resident population (young families).

2.3.1 Long distances associated with growth at the urban boundary

Councils stated that development at the growth boundary is challenging because of the large distances and areas involved. For example:

- There may be greater associated travel costs for council services (e.g. meals on wheels, community buses)
- The increased scale of park management leads to higher management costs, as parks tend to be larger and are spread over a greater area.

The impact of these factors on council finances will depend on the shape/size of the municipality and distribution of growth, and the types of services and facilities the council provides.

None of the participating councils have quantified the impact of this specific effect. This is a potential area for future investigation.

2.3.2 Lower socio-economic demographics of the resident population

The participating councils stated that the affordability of housing in the growth areas means that the households in their municipalities tend to have lower incomes than the Melbourne average. The impact is potentially two-fold:

- Households on average have less ability to pay (applies to user fees and rates)
- Households require more support required from council.

The implication is that growth area councils are more cautious about raising costs, particularly user fees for social support services.[10] We also heard from councils that because non-profit community organisations are largely based in inner suburbs, in the growth areas councils find themselves stepping into similar roles (e.g. child early intervention services).

On reviewing the evidence, **our view is that the socio-economic distribution is likely to have some effect on councils, but that if anything, this is an impact felt more in rural and regional areas than growth area councils.**

Unless there has been a significant shift toward lower socio-economic households since the application of the Fair Go Rates system, we would assume that the

[10] One could argue that lower income households are also less able to support rates increases. However, rates at least provide the ability to potentially cross-subsidise between socio-economic groups within the municipality, if it is the case that lower income households rely more on council services.

baseline level of rates enables council to service the mix of households in its municipality.

The Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD) score rankings for Melbourne's growth area councils, in comparison to other

Victorian councils are presented in Figure 2, and in comparison to other Greater Melbourne councils in Figure 3 below. Note that a low score indicates relatively greater disadvantage/lack of advantage, and vice versa.

Box 3 Measures of socio-economic disadvantage

Socio-Economic Indexes for Areas (SEIFA) was developed by the Australian Bureau of Statistics (ABS) to understand relative socio-economic advantage and disadvantage across the country. Four indexes currently exist within SEIFA, and this report considers the Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD).

The IRSAD summarises information about the economic and social conditions of people and households within an area, including both relative advantage and disadvantage measures such as equivalised household income, and education level. The ABS broadly defines relative socio-economic advantage and disadvantage in terms of "people's access to material and social resources, and their ability to participate in society"[11].

The IRSAD score ranking shows that when compared to all councils in Victoria, all growth area councils (with the exception of Hume) are ranked in the most advantaged half of the state. However, when compared with councils only in Greater Melbourne, all seven analysed growth area councils are in the least advantaged half.

This gives weight to the argument that growth area communities are limited in their ability to draw further income from their communities, **relative to the rest of metropolitan Melbourne.** Regional / rural municipalities are likely to be even more constrained in their ability to generate revenue from user fees.

We believe there is still scope to consider increases to user fees for specific services. Councils provide a complex service mix and some services may be deemed more appropriate to cross subsidise via other user fees or rate revenue than others. This is discussed further in Section 3.3.5.

[11]Australian Bureau of Statistics (2013), *Advantage and Disadvantage: The Concepts*, available http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/2033.0.55.001~2011~Main%20Features~Advantage%20&%20Disadvantage:%20The%20Concepts~10000, accessed 19 May 2017

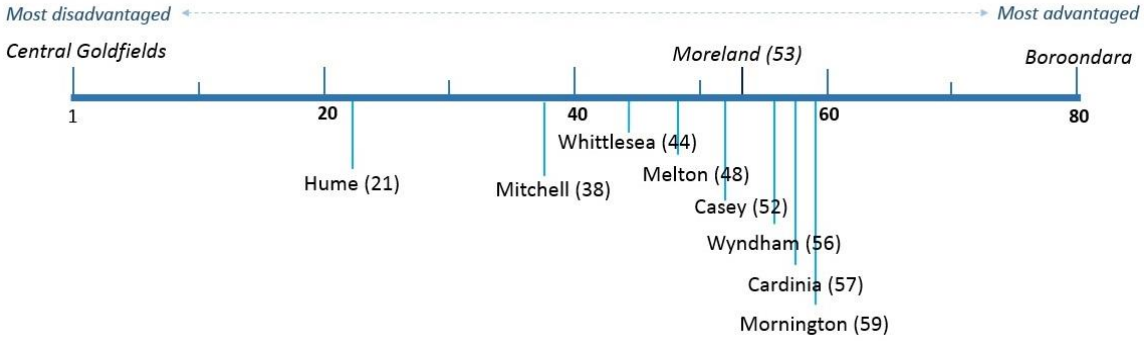

Figure 2 IRSAD score ranking for LGAs in Victoria[12]

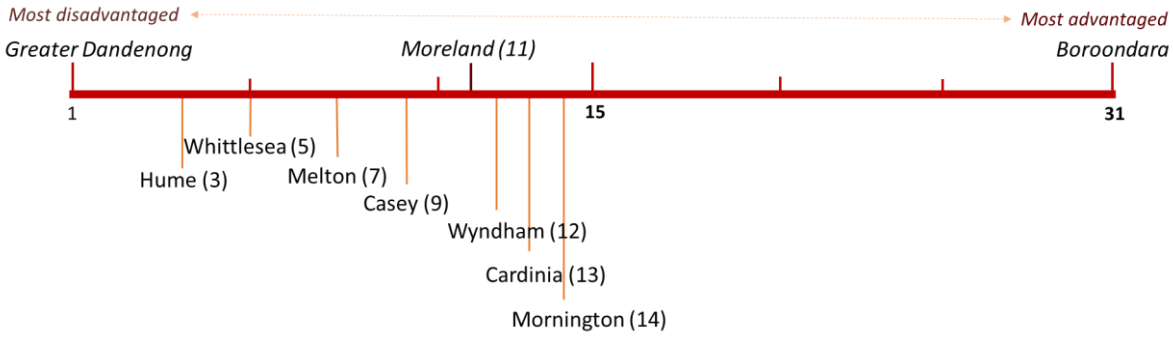

Figure 3 IRSAD score ranking for LGAs in Greater Melbourne[13]

2.3.3 Younger age demographic of resident population

Councils stated that the growth areas tend to have higher than average populations of younger people and this requires more council facilities such as maternal child health nurses, family support (e.g. counselling and referral pathways), libraries, playgrounds and recreational facilities.

Our view is that there is likely to be an impact from the younger distribution of the population, however we are not able to quantify the significance of this impact. This is potentially an aspect for future investigation.

The current and projected proportions of the population under 17 and over 60 in the growth and comparison areas are presented in Table 4. The data shows that in six out of eight of the participating councils, over a quarter of the population is under 17 years old. This is expected to increase to seven of the eight participating councils by 2036.

In the comparator inner councils, both now and in the future, less than one fifth of the population is under 17.

[12] Data from ABS, 2011 census
[13] Not Shire of Mitchell is not classified as part of Greater Melbourne

Table 4 Age proportion in participating councils

Council	2011		2036	
	Proportion of population under 17 (%)	Proportion of population over 60 (%)	Proportion of population under 17 (%)	Proportion of population over 60 (%)
Growth area councils				
Cardinia	27.5	15.4	28.1	17.8
Casey	27.4	13.1	28.2	16.3
Hume	27	13.4	26.6	16.3
Melton	28.3	10.5	26.9	15.2
Mitchell	27	17.6	27	19.3
Mornington	21.9	28.3	20.6	33.8
Whittlesea	24.4	15.2	25.8	17.8
Wyndham	27.3	10.5	27.4	13
Comparators				
Moreland	18.5	18.5	19.4	16.1
Boroondara	21	20	19.6	24.2

We saw no analyses that focused on the costs to councils of providing youth services and facilities. In the absence of this data, we reviewed the *Northern Horizons*[14] study, which offers data on community facilities needs for Hume, Mitchell, Moreland and Whittlesea.

Figure 4 shows the disparity between the needs of growth areas and the inner municipality of Moreland in terms of kindergarten, primary and secondary school places. Councils only provide kindergartens (and not all councils choose to e.g. Casey has withdrawn childcare/early learning services), while the State Government provides public primary and secondary school facilities.

The data does show the significant disparity in need; for example, Hume and Whittlesea will need up to eight times the number of pre-schools than Moreland.

[14] Arup on behalf of NORTH Link (2016), *Northern Horizons – 50 Year Infrastructure Strategy for Melbourne's North – Update 2016*, available http://melbournesnorth.com.au/northern-horizons-50-year-infrastructure-strategy-for-melbournes-north/, accessed 19 May 2017

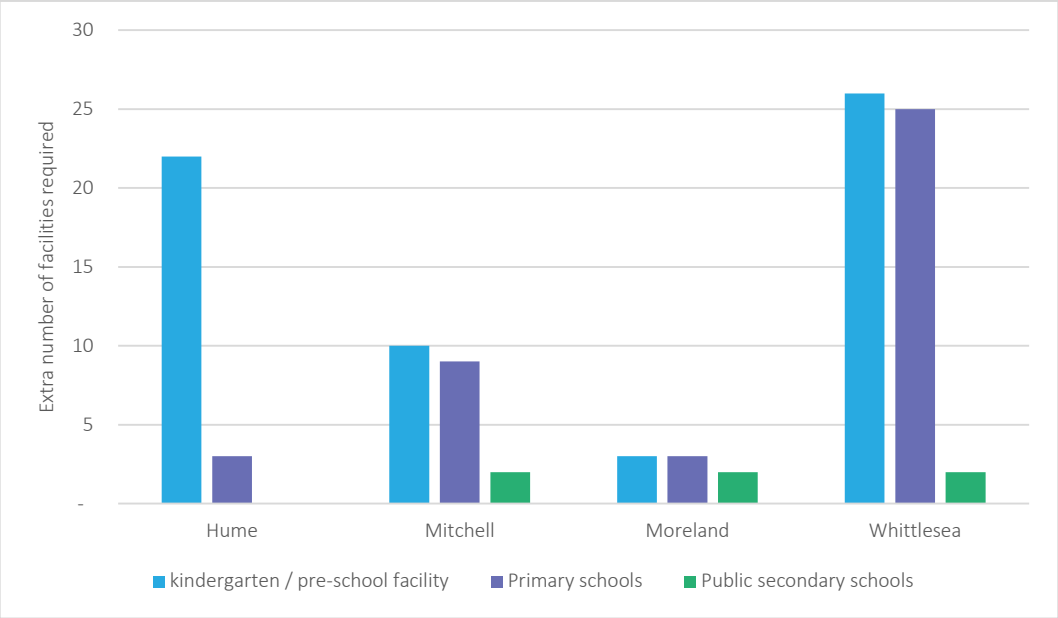

Figure 4 Extra school facilities required for Hume, Mitchell, Moreland and Whittlesea by 2021

Across Australia councils are facing the challenge of an ageing population. This is true across all growth area councils and Boroondara as a comparator council, there is a higher proportion of population over 60 in 2036 compared to 2011. **We are not able to quantify the relative significance of costs related to providing aged care services in growth areas.**

Councils provide aged care services including home and community care services, meals-on-wheels and assistance with home tasks.[15] Growth area councils currently have lower than average numbers of older people. Although this might suggest that growth area councils are not as challenged by the ageing population as other councils, the scale of population growth means that aged care service delivery is still substantial.

However, recently local councils have been reducing the scope of aged care service that they directly provide, while retaining a role in planning for aged care facilities.[16] Therefore, the impact of the ageing population on council service-related costs may level out or reduce over time. The Commonwealth and State governments will continue to provide, regulate and manage aged care services including subsidised services as required under the Aged Care Act 1997 (cth)[17].

[15] Commonwealth of Australia (2004), *2003-2004 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, Chapter 6: Health and ageing - impact on local government, available http://regional.gov.au/local/publications/reports/2003_2004/C6.aspx, accessed 7 June 2017
[16] Ansell C (2017), *Councils sell aged care facilities but keep planning role*, available http://www.governmentnews.com.au/2017/01/councils-sell-aged-care-facilities-keep-planning-role/, accessed 7 June 2017
[17] Australian Government Department of Health (2016) *Ageing and Aged Care*, available https://agedcare.health.gov.au, accessed 7 June 2017

2.3.4 Effect of commuter populations on inner urban municipalities

As a countervailing trend, in response to our survey, an inner urban council stated that the costs of service provision in inner municipalities has increased due to demand from commuters coming in from outer Melbourne. We did not quantify this effect, which is likely to vary from council to council depending on the level of business activity.

However, we note that inner urban councils have the ability to manage this pressure by raising revenue from:

- Business rates – Council provides services to businesses as well as households, and this includes the management of public open space and streets
- Parking charges – This can be a substantial income stream. The most extreme example is the City of Melbourne, which receives almost $50 million from parking fees and fines each year.[18] City of Port Phillip receives $7.5 million per annum.[19] Outer councils do not typically impose parking charges, as space is not at a premium and parking charges may limit mobility in areas that are highly car dependant
- User fees – Where services are available to non-residents, there is the potential to raise user fees, and potentially differentially for non-residents (e.g. childcare).

Growth areas tend to be largely residential with activity centres servicing the community. Of Melbourne's growth area councils, Hume is the only municipality with substantially more people commuting to the area for work compared to people commuting out of the area (see 'Net Origin-Destination' in Appendix A4).

Figure 5 shows that residential rates provided 67-92% of total rates and charges received, while commercial rates provided between 4-14%. Hume and Whittlesea received almost double the revenue from commercial rates and charges than other councils in this study (approximately $21 million (14%) and $16 million (13%) respectively). In comparison, Mornington Peninsula received $6 million or 4% of total rates and charges revenue from commercial ratepayers.

[18] City of Melbourne (2016), *Annual Plan and Budget 2016/17*, available http://www.melbourne.vic.gov.au/sitecollectiondocuments/annual-plan-budget-2016-17.pdf, accessed 19 May 2017
[19] City of Port Phillip (2016), *Budget 2016/17*, available http://www.portphillip.vic.gov.au/CoPP_Budget_201617_PROOF9.pdf, accessed 19 May 2017

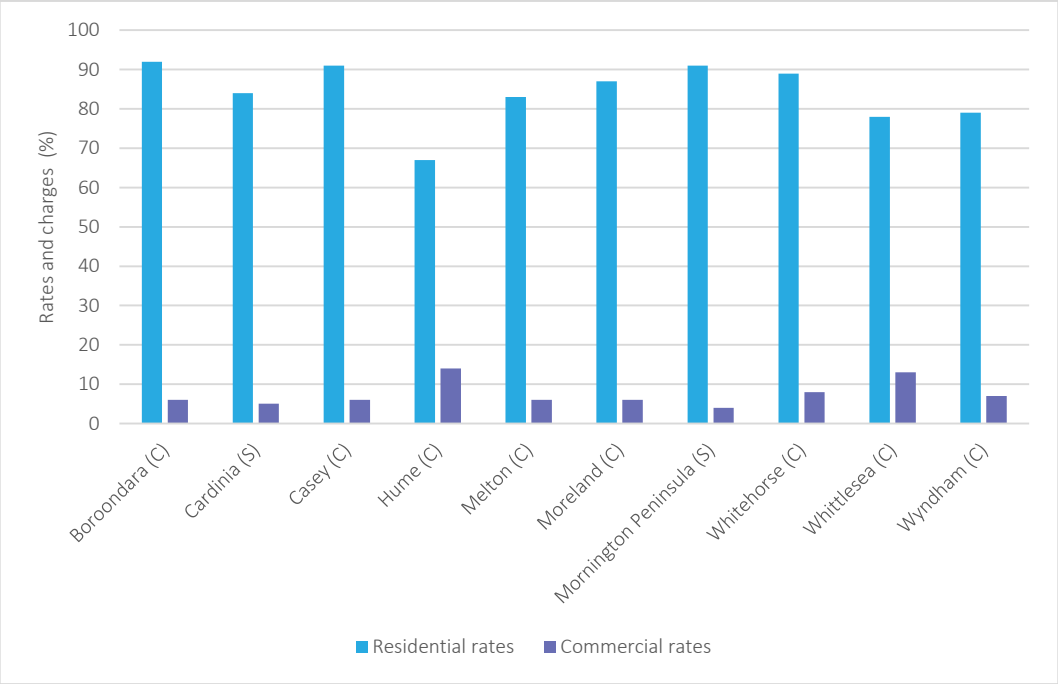

Figure 5 Proportion of residential and commercial rates received by Council 2015/2016[20]

[20] The Victorian Grants Commission provided the total rates and charges collected for Victorian Council in 2015/16.

3 Are growth area councils managing their resources efficiently?

3.1 Summary

Our view is that it is likely that councils still have room to increase the efficiency and effectiveness of their organisations. We observed that there were examples of good practices across the participating councils that could be scaled up and adopted by other councils. We highlight some of these examples in this section.

This section covers:

- Effective planning and delivery processes
- Making full use of council income
- Demonstrate that a council has a comprehensive / total view of its planning and management process as required in an application for a higher cap.

3.2 Planning and delivery processes

3.2.1 Best practice asset management

In discussion with councils and other stakeholders, we heard that although some councils have improved their infrastructure planning and delivery processes, most councils identified gaps between current processes and best practices. **We believe there is value in councils systematically adopting best practice asset management approaches.**

The following are principles of the international standard *ISO 55000 Asset Management—Overview, principles and terminology*, and align closely with the challenges cited by the stakeholders of the study:

- Robust data management – asset management is data intensive
- Life cycle approach to planning
- Cross-functional integration
- Supports energy management, environmental management and sustainability
- Balances short, medium and long term activity plans
- Risk-based approach to decision making
- Rewards creativity and innovation.

The standard identifies the benefits of asset management as:

- Improved financial performance
- Informed asset investment decisions
- Managed risk
- Improved services and outputs
- Demonstrated social responsibility
- Demonstrated compliance
- Enhanced reputation

- Improved organisational sustainability
- Improved efficiency and effectiveness.

Around a quarter of a growth area council's business (as measured by expenditure) is capital works – that is, asset management and delivery.[21] Asset management and infrastructure development is a strategic objective that local government shares with other sectors, including within government (e.g. VicRoads, Yarra Trams, and Port of Melbourne – See Box 4).

In 2014, the Victorian Auditor-General's Office (VAGO) surveyed the asset management practices of five local councils, including one growth council (Cardinia). Findings included:[22]

- '[councils] do not yet meet better practice standards. Progress has been made with the guidance and support available to the sector, but it has been relatively slow.'
- 'There is wide variation in the level of competency achieved by councils in developing effective governance arrangements, strategies and plans for asset management.'
- 'There are significant deficiencies in the asset management plans of most councils which inhibit their effective implementation. Many plans do not adequately link to councils' intended community service levels, and some are incomplete.'

Following VAGO's review, Local Government Victoria (LGV) produced the *Local Government Asset Management Better Practice Guide*[23] to support Councillors and executive management to incorporate strategic asset management into council activities. Consistent with the findings of this growth study, the asset management better practice guide places specific emphasis on:

- Engaging the community in making trade-off decisions between levels of taxation, risk funding and achievable service levels now and into the future, and
- Capacity building and workforce planning to address skills gaps in asset management.

As stated in the asset management better practice guide, councils are expected to work towards a core level of maturity as measured against the National Asset Management Assessment Framework (NAMAF).[24] This framework was

[21] Taking into account the salary costs of councils staff involved with planning, delivering and maintaining assets, it is likely that asset management represents more than 25% of a council's operations, as measured by expenditure.
[22] VAGO (2014), *Asset Management and Maintenance by Councils*, available at https://www.audit.vic.gov.au/report/asset-management-and-maintenance-councils?section=31155, accessed on 13 September 2017
[23] LGV (2015), *Local Government Asset Management Better Practice Guide*, available at https://www.localgovernment.vic.gov.au/__data/assets/pdf_file/0035/48599/Local-Government-Asset-Management-Better-Practice-Guide.pdf, accessed on 13 September 2017
[24] ACELG (date not known), *National Asset Management Assessment Framework*, available at http://www.lgam.info/national-asset-management-assessment-framework, accessed on 13 September 2015

developed under the guidance of the Australian Centre for Excellence in Local Government[25] and reflects ISO 55000.

Box 4 Port of Melbourne Corporation as an asset manager

We have provided this historical case study on the Port of Melbourne, not as an example of best practice, but rather for its parallels with the challenges faced by growth area councils. Similar to councils, the Port of Melbourne is tasked with achieving a more strategic level of asset management capability. In the Port's case, this is demonstrated through ISO 55000 certification.

The text below has been summarised from a paper presented by Port of Melbourne Corporation in 2010.[26]

In 2010, the Port of Melbourne Corporation (PoMC) owned and managed a diverse range of infrastructure assets with a replacement value of approximately AU$1.8 billion. PoMC had been building on its asset management processes by implementing an asset management Policy and Strategy since 2008.

The Board-adopted Asset Management Policy (Policy) placed several obligations on PoMC to implement best practice asset management protocols within the business. The Board also recognised that PoMC must manage its infrastructure in a sustainable manner and achieve a commercially sustainable return on its investment so that it can deliver its obligations to stakeholders and customers into the future.

PoMC's asset management improvement program was based on the achievement of the following key principles aimed at consolidating PoMC as a cohesive and high performing world class asset management organisation:

- Build a unified organisational focus with consistent policies, procedures, and clarity over responsibilities for asset performance.
- Embed asset management as a core business discipline within corporate processes.
- Remove silo-based asset management processes and improve corporate consistency.
- Move from project-centric to whole-of-life philosophy.
- Improve clarity over measurement of asset performance.
- Standardise approach to life cycle planning and costing methodologies.
- Develop Asset Management Plans for key infrastructure assets that align and support service outcomes and corporate goals.
- Make sustainable decisions based on whole-of-life cycle costs, risk, level of service considerations and return on investment.
- Develop and implement a suite of technology systems and tools to support the strategic asset management decision-making processes.
- Implement an appropriate best practice asset management training program for PoMC staff likely to influence asset management decision-making.

[25] Closed in 2015

[26] Lo Bianco D & Giddings B (2010), *Strategic Asset Management at the Port of Melbourne Corporation*, available http://aapa.files.cms-plus.com/PDFs/Strategic%20Asset%20Management%20at%20the%20Port%20of%20Melbourne.pdf#page=6&zoom=auto,-158,703, accessed 19 May 2017

- Build competency and intelligence in strategic asset management across PoMC.
- Develop tools to assist with long term renewals planning and optimised renewals decision making.

The main area of attention to achieve the step improvement was the development of technical information systems. However, it was recognised that of equal importance was the implementation of appropriate business processes and the provision of appropriate skills training for people who would ultimately be called upon to interpret system outputs and make judgement decisions based on best practice standards, commercial imperatives and sound asset management experience.

The focus of the delivery program was broader than a simple implementation of new business process, new data management techniques and improvements in technical systems and software; it also commanded close management of the cultural shift required across the business.

The figure below shows a maturity model pyramid developed internally within PoMC that articulated how the step improvement process was measured and benchmarked. It can be see that PoMC progressed since 2006 during which time it was operating at a basic level of asset management. It was anticipated that PoMC would progress to the strategic level by mid- to late-2010.

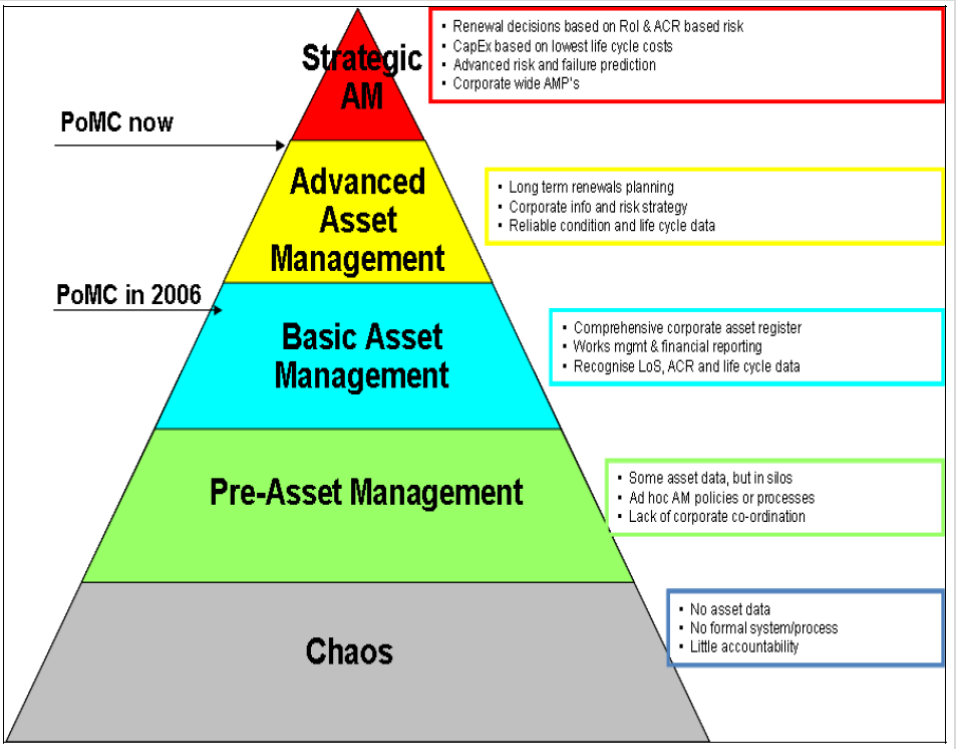

Figure 2: Asset Management Maturity Model

The key benchmarks for measuring success in terms of having achieved strategic asset management operations may be summarised be asking the following questions:

- Is long range renewal planning undertaken within a level of service context?
- Is historical data used for strategic renewals decision making and predictive modelling?
- Is it possible to begin to predict likely asset failures and pro-actively manage accordingly?
- Is asset risk management integrated into decision making?

- Are renewals options decision making based on present value return on investment?
- Are infrastructure planning processes based on 'whole of life' costs?

These benchmarks may be further distilled down to the following four main processes and elements of system functionality:

- Renewals Modelling
- Risk Management
- Optimised Renewals Decision Making
- Life Cycle Planning.

Table 5 compares the elements of the ISO 55000 with council processes and possible tools. The processes and tools listed below could be established, updated and/or integrated to support a systematic approach to asset management. This could then provide stakeholders, including the Essential Services Commission, confidence that there is an organisation-wide holistic approach to planning and delivering infrastructure.

Table 5 Relationship between elements of asset management standard and existing/potential Council processes

Element	**Available processes and tools**
Context of the organisation • Organisational culture and environment • Mission, vision and values • Stakeholder influences • Organisational objectives	Council Plan Municipal Strategic Statement Community consultation
Leadership Top management is responsible for developing policy, objectives, allocating resources, resolving conflicts and communicating the importance of the asset management system.	Debt policy Role descriptions cover asset management responsibilities
Planning • Structures, roles and responsibilities • Stakeholder support • Risk management • Continuous improvement • Extends beyond business planning timeframes to encompass asset life cycle • Alignment with organisational objectives	Council Plan Strategic Resource Plan Annual budget Strategic asset management plan or asset management strategy Project management framework Debt management strategies Investment business cases
Support • Asset information systems • Collects, verifies and consolidates asset data	Asset registers Spatial databases

Element	Available processes and tools
	Demographic forecasts[27] Facility triggers Human resources management systems to specify competency requirements of personnel involved in asset management
Operation • Functional policies • Technical standards • Plans and processes	DCP-management processes Engineering standards Outsourcing plan / strategy Growth management strategies Valuation processes
Performance evaluation • Evaluation against asset management objectives, effectiveness of data management, and transformation of data to information • Periodic audits • Inputs into management reviews	Local government performance reporting (VAGO, LGV) Annual report Monitoring & evaluation frameworks established by strategies relevant to asset management Various internal performance indicators Community satisfaction / user surveys
Improvement • Monitoring of asset performance • Management reviews • Internal and external audits • Incidents and emergency response planning	Business continuity planning Climate change adaptation / resilience strategy Risk assessment Innovation
Integrated management systems approach • Integration with quality, environment, health and safety, risk management • Cross-functional coordination	Integrated management system

Wyndham City Council has recently implemented a comprehensive project management framework (Box 5), which exemplifies a number of the best practices including:

- Professionalisation of project management functions
- Improved efficiencies in project management processes, supported by information technology tools
- Organisational focus and support for effective project management
- Strong and appropriate governance structures for each project, including single point of accountability
- Disciplined approach to developing business cases

[27] Most councils rely on growth data from forecast.id, a specialist demographics consultancy that focuses on serving local government.

- Separation of stakeholder management from project decision-making.

Box 5 Comprehensive project management framework for Wyndham

Wyndham City Council has developed and implemented a comprehensive Project Management Framework (PMF) providing a centralised, consistent and clear set of processes and procedures across the organisation. The framework provides Council with long term integrated planning and processes, systems, training and templates to support its project managers to successfully plan, manage and deliver their strategies, new initiatives and projects.

Wyndham City Council is a diverse organisation in one of Australia's largest growth corridors. A vast myriad of project sizes and complexities are delivered including construction of roads and community buildings to fleet purchases, land acquisition, open space developments, staging of community events, development and purchase of IT solutions and development of Master Plans to name a few. Their annual Capital Works Program is one of the largest amongst Victorian Councils.

Wyndham is one of Victoria's most rapidly expanding municipalities and it was evident that while there was maturity and sophistication as an organisation with strong corporate governance and a significant capital works program, the project management processes and capabilities were not keeping pace. A priority recommendation of the review was that the frontline tool for the management of risks by Council in project delivery was the development and implementation of a PMF.

Prior to the PMF there were no consistent systems or processes for project delivery and a wide variance in the project management skills across the organisation (with over around 270 staff with project management roles.

The key project outcome is the successful establishment of a PMF and a Project Management Office with the all-encompassing support and buy-in from the senior leadership, project managers and project stakeholders. The PMF is a system that is readily accessible and easy to use and has been able to successfully integrate with existing systems (including software) and the culture of the organisation, thus managing the change component without the undue stress from dramatic and potentially destabilising change.

The PMF has provided a decision-making framework/ project governance that is logical, robust and repeatable. The PMF espouses the benefits of good project governance for both the organisation and for the project managers, and provides a relevant and accessible means of confirming and documenting the appropriate governance for a project.

A characteristic of the PMF is its development as a top-down system, endorsed by the Executive, in that not only is there strong support and buy-in from senior management, but senior management has clearly described and active roles in the PMF for all projects other than the Small Project category), through the gateway review process and the endorsed governance structures.

The Wyndham PMF has been introduced with much anticipation and goodwill from across the organisation. A PMO has been established with a staff of 8, and with the responsibility of development of the PMF and management of the roll-out, amongst other corporate responsibilities. The PMO team includes a change management specialist, focussed on the implementation process.

3.2.2 Role of the Strategic Resource Plan in strategic asset management

Local government plays a critical role in planning for, and providing infrastructure, at a local and regional level. Local Government Victoria notes that 'Dealing with rapid population growth is, for the Interface councils, 'business as usual', and should be incorporated into their normal forward planning and reporting processes as legislated by *the Local Government Act 1989*.'[28]

This is a key function that is reflected in the Council Plan (4 year time horizon). Funding to achieve strategic objectives (such as infrastructure delivery) is identified through the Strategic Resource Plan (SRP).[29]

Councils must take into account services and initiatives contained in any plan (including asset management plans) adopted by the council when preparing the SRP.

LGV[30] provided us commentary and data that states that:

- The SRP is the key medium term council planning document that aligns resource requirements with a council's medium term planning and the annual budget cycle. By requiring councils to look forward at least 4 years, it sets expectations for councils to undertake the analysis and planning required to deliver services and infrastructure effectively and set budget parameters accordingly.
- Councils across Victoria are effective at aligning the medium term planning and resourcing requirements with annual budgets and do not require substantial change once adopted.
- The interface group of councils experiences the most variance from planned SRP figures for income, expenditure and capital works in comparison to other council groupings. This lag is due to councils waiting for developer contributions (cash and non-cash contributions).
- Developer contributions have always been a supplementary component of committed spending, not a primary funding source. Their original design was not to fully fund infrastructure needs but to make a significant contribution to same. It is reasonable therefore to expect the SRPs of interface councils make provision for those infrastructure works that may not be fully funded. This component is council's contribution from own-source income.

LGV's analysis is based on the previous environment of flexible rates. What is not evident from LGV's analysis is the impact of rates capping on the planning process. As shown in Appendix A3, rates income and expenditure have

[28] LGV (2017), 'LGV response to the draft *Growth Study Discussion Paper* 'Commissioned by the Essential Services Commission and prepared by Arup', provided via email on 27 March 2017
[29] LGV (2017), *Local Government Better Practice Guide Strategic Resource Plan 2017*, available https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting, accesses 19 May 2017
[30] LGV (2017), 'LGV response to the draft *Growth Study Discussion Paper* (Commissioned by the Essential Services Commission and prepared by Arup', provided via email on 27 March 2017

historically been closely correlated. It is likely that councils previously set their expenditures in anticipation of how much they could raise from rates.

In a rate-capped environment, councils may still be able to adequately plan to match revenue with expenditure, however this does not address the issues related to foregone infrastructure investment or reduced service levels.

3.3 Making full use of council income

Councils have a range of income sources and we saw different degrees of control over these sources. This section discusses these key income sources.

3.3.1 Historic trends in rates revenue

Appendix A3 shows the relationship between growth and rates. This analysis confirms some basic parameters:

- As population grows, council expenses increase.
- Rates are an important source of revenue.
- Historically, the rate of growth in rates income has outpaced household growth.
- However, the growth of rates income has slowed over time.
- With the capping of rates, future analysis should show minimal growth of rates income per capita.

City of Whittlesea put forward the view that the relatively low socio-economic status of their community means that they have historically limited rates growth in a way that infill councils have not. The implication is that Whittlesea's baseline for rates under the Fair Go Rates system was set relatively low and is more likely to trigger the need for a cap variation.

Table 6 shows that this statement does not apply to all participating councils. It is true that Whittlesea has had lower average rate increases over the last decade. Most other participating councils have had rate increases on par or greater than the Victorian average.

Table 6 Average rate increase over last decade for growth area councils and comparators

Municipality	Average rate increase over last decade (FY 2005-06 to FY 2015-16)	Amount of rates charged on average for each residential property (FY 2015-16)
Growth area councils		
Cardinia	5.96%	$1,789.39
Casey	5.83%	$1,672.68
Hume	6.38%	$1,483.17
Melton	4.35%	$1,608.42
Mitchell	8.23%	$1,805.45
Mornington Peninsula	6.44%	$1,455.96
Whittlesea	4.31%	$1,382.74

Municipality	Average rate increase over last decade (FY 2005-06 to FY 2015-16)	Amount of rates charged on average for each residential property (FY 2015-16)
Wyndham	5.40%	$1,582.38
Comparators		
Boroondara	5.76%	$2,152.75
Moreland	5.61%	$1,496.48
Victorian average	5.99%	$1,524.69

3.3.2 Developer contributions plans

Sufficiency of DCPs

Councils are currently delivering infrastructure as set out in previously-established DCPs and therefore the sufficiency of historic DCPs is relevant to this growth study. Local infrastructure for future precincts will be partly funded by the new ICP system.

It is not the purpose of this study to examine in detail the Developer Contributions Plan (DCP) system (now the ICP system). However, there is a clear link between rates and DCPs/ICPs, as any shortfalls with such plans must be resolved using other council income.

We identified two major trends driving the sufficiency of DCPs in contributing to local infrastructure:

- The underscoping / underfunding level of older-style DCPs (pre-2012)
- Councils being more directive over what works are credited to developers.

There is widespread acknowledgement amongst both council and non-council stakeholders that DCPs prior to 2012 were:

- Underscoped – that is, they did not cover the full range of infrastructure that councils were expected to provide for a development
- Underfunded – that is, the amount of funding allocated to each infrastructure item was insufficient to cover the actual cost of the item.

Councils are still delivering their statutory obligations for infrastructure provision under these older style DCPs. The degree of underscoping and underfunding is shown in the detailed case studies presented in Appendix D and summarised in Box 6.

Most stakeholders acknowledged that the more recent DCPs (in the past five years) and the new ICPs provide a higher contribution. However, councils are cautious, as the recent DCPs/ICPs are not yet complete and construction costs could as yet escalate.

Box 6 Case studies on the gaps left by DCPs[31]

Cardinia Road Development Contributions Plan

The DCP projects are 44% complete (as of December 2016) and Cardinia Council has already incurred costs over and above developer contributions of $4.8 m with $4.5 m left to spend. This is over double the projected cost in the DCP. A key contributory factor here is that infrastructure costs for one element of the development were not fully costed when the DCP was established and council found itself responsible for these costs.

Cranbourne East Development Contributions Plan

This is a precinct with several thousand houses and the DCP relates to 40 identified projects. The precinct is more than half complete and the City of Casey appears to be on track against the DCP. Two key observations were made – first, that accounting for individual elements of the DCP is difficult. Second, for out-of-sequence development Casey has been clear that developer contributions must still be paid; developers are then reimbursed for their works in kind later when the works become due.

Merrifield West Development Contributions Plan

Hume City Council has recovered 85% of costs attributable to the precinct via the DCP. However, this case study highlights the issue of items which are not in the DCP or not fully covered by the DCP. In the Merrifield West example, the DCP provides for a portion of the funds to purchase land for a library and aquatic centre. These facilities are meant to serve beyond the boundaries of the precinct and therefore the precinct is only liable for a portion of the cost. This is clearly challenging for the Council as it effectively imposes additional costs which they need to find a means of funding.

We frequently heard from councils that even with effective financial and capital works planning, fundamentally the current level of rates and DCPs will not enable a precinct or community to fund its own requirements. To understand this further, we have reviewed the DCPs for three case studies (refer to Appendix D) alongside the councils' budgets.

It is clear that a substantial proportion of the future residential rates income will need to be devoted to paying back the upfront infrastructure investment that a council is obliged to make. However, **we saw no evidence that a community's own current and future income was insufficient to fund its local infrastructure.** This suggests that debt (or other bridging revenue streams) could play an important role in addressing the revenue challenges (see Section 4).

Sufficiency of new ICPs

For more recent DCPs/ICPs, the Victorian Planning Authority and councils have learned from earlier iterations of the planning process. As a result, developers are responsible for a larger proportion of local and community infrastructure costs in newer precincts, nearing to 100% as per the case study in Box 7.

[31]Information relating to these case studies can be found on the Cardinia, City of Casey and Hume City websites.

However, challenges remain for councils in managing DCPs and ensuring that funding is available for projects at the right time. While developers contribute funding towards infrastructure, ultimately councils are liable to provide all items in the DCP/ICP. Managing DCPs has traditionally been a challenge for councils, as they have not had the resources and system in place to efficiently do so.

Box 7 Hume case study – Marginal analysis of a new community and the limitations of such analysis

Hume has completed a 'marginal analysis' of an example new community, assuming a 7.5 year development period for 3000 homes. The calculation showed that the gap between expenses and income was approximately $235,000 per hectare.

In this example, expenses included capital expenses for providing new facilities and operating expenses to service the community, while income included rates, fees and charges from newly developed lots and the open space contribution. Hume identified that this gap would need to be covered by developer contributions.

It appears that the new Infrastructure Contributions Plan levy rate would be sufficient in this scenario to pay for the full cost of the items in Hume's example. For the North and West growth areas of Melbourne, the total levy rate is $328,500 per net developable hectare.

However, SGS (2016)[32] cautions against generalising any case study (real or theoretical) to other communities. The report states:

'The literature sends a clear message that making comparisons between case studies is difficult. In addition to the different assumptions made in calculating infrastructure costs regarding population size, type of infrastructure, upfront vs ongoing costs and time period for assessment (as discussed above), geographical differences between locations and variation in the capacity of adjoining infrastructure systems (especially in infill locations) can have a significant impact on cost.

The distance of the development to the nearest systems can have a significant impact on the cost of service delivery. The other main location-specific factor affecting costs (and the capacity to compare locations) is the infrastructure that is already in place, its catchment and the level of augmentation required.'

Managing DCPs/ICPs

The key growth management practice to highlight is that some councils are being more directive with developers on what in-kind works will be credited under the DCP/ICP. Developers have the option of providing works-in-kind rather than cash contributions to cover their liability under the contributions plan. Potentially, there are efficiency advantages to this option, as developers are already onsite and have contractors engaged so can undertake these works in a streamlined manner alongside their own works.

[32] SGS (2016), *Comparative costs of urban development: a literature review*, available at http://yoursay.infrastructurevictoria.com.au/30-year-strategy/application/files/1714/7546/2887/SGS_Economics_and_Planning_-_Comparative_costs_of_infrastructure_across_different_development_settings.PDF, accessed 21 March 2017

A developer might wish to deliver a road or intersection for the benefit of the development (covering their liability under the contributions plan), but if this is not in line with council's priorities ('out of sequence'), council may decline to credit the contribution.

In contrast, some councils expressed a view that they have relatively little influence on what types of non-monetary contributions (works-in-kind) are provided by developers, and critically at what stage of the program.

A significant source of tension is that when it comes time to purchase community land or deliver a key piece of community infrastructure, the cash contributions under the DCPs may not yet be available. This may lead to an escalation of costs (e.g. due to land cost escalation or financing costs).

In this scenario, we believe that councils should investigate interim solutions (as described in Section 2.2.2) as well as consider debt financing (see Section 4). The Victorian Planning Authority (VPA) confirmed that there are some DCPs that include funding for interest payments, but that this option is not often used.

There is also a need for an accounting system that can effectively report on assets and liabilities in DCP/ICP areas. Of the three councils that provided DCP case study information, none had accounting processes in place to monitor exactly how the implementation of the precinct infrastructure was tracking and how much their remaining liability was (including DCP and non-DCP items).

3.3.3 Grants

It is not the purpose of this study to examine the operation of government grants in detail. However, there is a clear link between rates and grants as they are both important sources of council income.

Our view is that councils are largely making full use of the grants available to them. It would be preferable for the government to provide more stability and certainty around the availability of grant funding (4-year time horizon). This would enable councils to assess their need for rate cap variation with more confidence (as compared to applying for a variation 'just in case').

While grants are a small proportion of council income, they are critical in balancing budgets. The significance of grant funding is on par with the rate cap variations requested by councils.

Recurrent federal grants through the Victoria Grants Commission (representing 2.8-9% (average 5.7%) of growth area council revenue[33]) provide a predictable source of income for all councils across Victoria. A key benefit of these grants is the regularity with which they are provided to councils, enabling them to forecast and plan for the receipt of this income.

While the federal General Purpose grants are not specifically targeted at growth area, the formula used to allocate funding to councils considers factors including population growth and population dispersion that may increase the proportion

[33] LGV (2017), 'LGV response to the draft *Growth Study Discussion Paper* (Commissioned by the Essential Services Commission and prepared by Arup', provided via email on 27 March 2017

allocated. These factors, as well as consideration of socio-economic disadvantage also ensure that rural and regional areas receive a fair allocation of grants funding.

State government grants are an important source of funding for specific types of council facilities and services. While some state government funding is recurrent, a key challenge with annually-renewed funding through the Growing Suburbs Fund has been the short time horizon for planning and implementing projects. The 'shovel-ready' projects eligible for funding through the Growing Suburbs Funds in most cases already had funding allocated by councils. However, it is noted that the additional funding provided should enable councils to allocate their funds to other projects.

Interface councils fund a greater proportion of their capital works expenditure through grants compared to the average across other metropolitan council in Victoria (7%, compared to 4%).[34] Given the importance of grants to growth area councils, it is not surprising that the clearest result from the survey was that growth area councils are very challenged by 'grants not keeping pace with costs' (refer to Appendix C for survey results).

Because growth area councils rely on grant funding more than non-growth area councils, the availability and certainty of grant funding affects their requirement for rates substantially (see Box 8 for details of key grant types for growth area councils). It is plausible that in an uncertain grant funding environment, councils are likely to request the ability to levy higher rates.

Box 8 Key grant types for growth area councils

General Purpose Grants – Australian Government funding provided through the Victoria Grants Commission to local councils in Victoria. These grants are allocated based on a formula that assesses councils' relative needs. This takes into account factors including population, socio-economic disadvantage, population growth and population dispersion.

Local Roads Grants – Australian Government funding provided through the Victoria Grants Commission to local councils based on an assessment of their relative needs in maintaining their roads. Despite the name of this grant, the funding is not tied to road expenditure, however the expense of road maintenance exceeds the amount of funding provided through this grant.

Growing Suburbs Fund – Previously the Interface Growth Fund, this $100 million fund aims to help interface councils fund the backlog of infrastructure in their municipality. The funding has been available to councils for the last two years (2015-16 and 2016-17), with funding committed for only one year at a time. As a result, this fund has focussed on 'shovel-ready' projects over the past two years. Currently, there is funding committed for the next two years (2017-19).

Other state government grants – Local councils are eligible for a range of state government grants to enable them to provide specific facilities such as libraries and sports facilities to their communities. The funds available through these grants often needs to be supplemented with other local government funds to make up the full cost of facilities.

[34] Factsheets: DELWP (2016), *Local Government Planned Capital Works Expenditure Metropolitan Councils, Victoria*, & DELWP (2016), *Local Government Planned Capital Works Expenditure Interface Councils, Victoria*

3.3.4 Supplementary valuations

Our view is that councils are aware of the imperative for supplementary valuations in order to capture the rates uplift due to growth in their municipality.

The purpose of supplementary valuations is to more closely reflect the improved value of properties such that new residents fund their portion of council services. Supplementary valuations may be made in a range of circumstances.[35] For growth area councils, supplementary valuations are most typically tied to changes in land value due to subdivision. In order to capture the additional rates revenue, councils need to update the valuation of land as soon after the subdivision as possible. Box 9 provides comments from two of Victoria's growth area councils on the importance of supplementary valuations to council revenue.

Councils should consider the advantages of using external valuers or other means to increase the frequency of valuations at times of rapid growth.

At the start of each valuation period, councils determine the rates charge on per unit land value. Councils can undertake supplementary valuations of properties between general valuations (typically every 2 years) to reflect the value of capital improvements made.

Box 9 Maximising the use of supplementary valuations[36]

Mitchell

The Shire of Mitchell recognises the critical importance of supplementary valuations, considering them a key funding mechanism for growth. The revenue is used to meet service and infrastructure demand in the council, providing timely benefits to ratepayers, while also allowing council to plan for the backlog of infrastructure work over time.

Whittlesea

The City of Whittlesea believes it makes full use of supplementary valuations. In-house valuers undertake up to 10 valuations per annum (compared to typically 4 valuations where external valuers are used) to maximise rates income and provide a fast revenue stream.

3.3.5 User fees

Our view is that councils should investigate the community's willingness to pay for user charges at the facility or service level. The ability to pay varies across a municipality and across different client groups. It is not clear that councils are making full use of differential pricing / subsidy (e.g. maintain or

[35] The circumstances are listed in Valuation of Land Act 1960 – Sect 13DF, available at http://www.austlii.edu.au/au/legis/vic/consol_act/vola1960173/s13df.html
[36] Source: Council interviews as part of this study

reduce charges for health care card holders, while increasing charges for those with full employment).

We asked councils the role of increased user fees in making up funding gaps, particularly for providing services. Councils expressed reluctance to do so citing the low income of many households who tend to use the services more.

Councils recognised that any measures that increased costs on low income households (be they user fees or rates) or reduced access to services would be undesirable.

The view most often put forward by councils was that local government should be allowed the autonomy to respond to their specific community's willingness-to-pay. By implication, if a council has consulted the community and the local democratic process led to an application for rate cap variation, then it is understood that the community has traded off increased rates over reduced services and increased user charges.

As part of a comprehensive approach to managing growth, councils should be (if not already) systematically investigating residents' ability and willingness to pay across its facilities and services. This includes community engagement to set expectations and communicate trade-offs. Such topics should be covered as part of community consultation required prior to rate cap variation application. Refer to further discussion in Section 4.4.

3.3.6 Special rates schemes

Councils have the ability to establish special rates schemes where there is localised benefit. A special rate is a rate raised in addition to the general rates and charges under the provisions of section 163 of the Local Government 1989. It is a property-related debt, the same as a general rate.

Peter Brown, former CEO of Moreland and author the 2016 Independent Review of the Fair Go Rate System commented to us that **there is further scope for councils to use special rates schemes in defined growth precincts. Our view is that this is an area for council to consider in their financial planning.**

The benefits include:

- It is an additional funding stream that supports growth.
- The special rate is paid by those directly benefiting from the infrastructure, which is equitable over time (e.g. if a household leaves, they no longer pay for the delivery of the infrastructure)
- For municipalities in the early growth phase, such a levy enables councils to equitably treat communities over space.[37]

[37] We heard from Mitchell that it is challenging to get community acceptance of rates increases in established townships, if those increases are used to fund infrastructure for development fronts far away.

3.4 Efficiency of service and infrastructure delivery

Once a council has determined its priorities and assembled all its resources, the task is to deliver infrastructure and services efficiently. This section covers:

- Business improvements
- Alternative delivery models

3.4.1 Business improvements

As described in Section 3.2, **our view is that strong asset and project management systems provide the structure and incentives for efficiency improvements.**

Councils acknowledge the need to improve back-of-house practices to reduce costs. Examples of these include:

- Organisational structure and processes to better integrate planning (e.g. City of Casey reorganisation over the past years)
- Upgrade of enterprise management systems to automate manual processes (e.g. City of Wyndham project management framework)
- Joint procurement with other councils to leverage buying power and reduce administration costs (e.g. MAV Procurement Australia panel[38] - refer to Box 10).

Box 10 Bulk procurement

MAV Procurement (MAVP) is a not-for-profit organisation focused on achieving better procurement outcomes for local government. By leveraging the combined purchasing power of councils MAVP achieves better value on products and services, reduces costs, simplifies the procurement process, and minimises the compliance risk associated with procurement for councils.

The 'Local Government Procurement Strategy' (2008) found that at that time Victorian local councils were spending in excess of $2.7 billion on goods and services, and by adopting better practice procurement across the sector annual savings had the potential to be $180-350 million. This finding lead to the development of the 'Best Practice Procurement Guidelines' (2013)[39] for Victorian councils to use to develop and maintain the most efficient and prudent procurement processes.

Currently, MAVPA has 31 bulk procurement contracts for goods and services including: bill payment; energy efficient street lighting; library materials; telecommunications; and park and playground equipment. Six of these contracts were established in collaboration with the National Procurement Network (NPN).

[38] Scope of procurement panel is listed at the website: http://www.mav.asn.au/policy-services/procurement/Pages/council-frequently-asked-questions.aspx
[39] LGV (2013), *Procurement Best Practice Guidelines*, available at https://www.localgovernment.vic.gov.au/strengthening-councils/procurement, accessed on 13 September 2017

Councils noted that they shared best practices on specific initiatives, although there was no regular forum for business improvement initiatives at local government. Prior to its closure in 2015, the Australian Centre for Excellence in Local Government[40] provided research in organisational capacity building.[41] However, there are other similar schemes: LGV delivers the Collaborating Councils program and support the Regional Procurement Excellence Networks.[42]

While councils recognise the need for them to 'get their own house in order', the view was that the benefits of business improvements would be realised over many years, and that in the interim, additional rates income would still be needed.

This is partially supported by our analysis, which shows that Casey and Wyndham councils (the two councils we have analysed which applied for a higher cap in 2016-17) would need to reduce costs by 1.6% and 2.8% per annum respectively to make up for their requested rates cap variation of 0.97% and 2% respectively. By means of comparison, the efficiency dividend for the Australian Government public services is 1-2% per annum.

3.4.2 Alternative delivery models

We believe that councils should be preparing strategic business cases for alternative delivery models for facilities including:

- Interim solutions for community facilities (see for example Section 2.2.2)
- Shared regional facilities

There are examples of councils working together to develop a shared facility/service for the region. Whittlesea, Darebin and Moreland contributed $13 million to develop the Epping animal welfare facility, with Whittlesea expected to contribute most to operational costs. The 2015 feasibility study[43] quotes the Regional Animal Welfare Facility Business Case (November 2014) that there may be an operational saving of $380,000 per annum across all three councils due to economies of scale.

It is plausible that regional-scale / shared delivery models offer economies-of-scale in both infrastructure and service delivery.

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[40] UTS (date not known), *About ACELG*, available at http://www.uts.edu.au/research-and-teaching/our-research/public-policy-and-governance/about-institute/about-acelg, accessed 21 March 2017

[41] ACELG published high level case studies in implementing business excellence covering initiatives such as organisational culture change, performance assessment and IT expansion. These are available at https://opus.lib.uts.edu.au/bitstream/10453/42083/3/BEF-Case-Studies.pdf

[42] LGV (2017), *Collaborating Councils*, available at https://www.localgovernment.vic.gov.au/grants/collaborating-councils, accessed on 13 September 2017

[43] Essential Economics & Sweet (Australia) (2015), *City of Darebin and City of Moreland Animal Shelter Feasibility Study*, available at http://www.darebin.vic.gov.au/~/media/cityofdarebin/Files/YourCouncil/HowCouncilWorks/MeetingAgendasMinutes/CouncilMeetings/2015/18May/Item-905-Appendix-A--Council-Meeting-18-May-2015--Pound-Feasibility-Study.ashx?la=en, accessed on 21 March 2017

4 Are growth area councils using debt effectively?

4.1 Summary

If councils are:

- delivering infrastructure and services that the community wants,
- delivering efficiently, and
- and there is still a revenue gap

then fundamentally the challenge of growth is one of timing– the gap between when the funding is required and when the revenue (DCP, rates or grants) is available.

We believe that it is possible to use debt financing to bridge the gap between capital expenditure today and the income to be received from residential rates and charges in the future.

This section discusses:

- Role of debt in financing growth
- Appropriate levels of debt
- Community engagement on the use of debt versus other strategies.

4.2 Role of debt

Typically there are long timeframes between early infrastructure delivery requirements and additional rates income as new properties are completed. Prior to completion, rates collected on greenfield land is around 20-30% of the final developed land rates.[44] Prior to completion, service provision costs to council for the development area are negligible.

Every stakeholder agreed that there is an important role for debt to bridge the gap between infrastructure spending and residential rates revenue. However, there were substantial differences in views on how debt should be used, and the extent to which debt could resolve the financial pressures of growing councils.

We believe that debt financing of infrastructure is usually more equitable and more efficient than 100% accumulation of funds prior to infrastructure delivery.

The community of the future benefits from present-day infrastructure investments made by a council. The benefits extend across generations of residents and therefore could be paid over time.

Our view is that the use of debt to finance infrastructure can be an equitable way of spreading the costs over time to those who benefit. It is more equitable than

[44] Approximation provided by the VPA, based on the Melton rates calculator, available at http://www.melton.vic.gov.au/Regulations/Rates-and-payments/Calculate-your-rates.

accumulating 100% of funds prior to initiating capital programs, as this puts the burden of payment on current residents, rather than the future residents who will arguably make more use of the assets.

MAV stated the view that the existing cash deposits in council accounts could be used more efficiently through leveraging. There may be a perception within the community that this is not an effective use of community funds. See Box 11 for an example of a recent media article presenting this view.

Box 11 In the news: Property Council accuses local governments of "stockpiling" infrastructure funding[45]

The Fifth Estate, 18 May 2017

Sydney's local governments are sitting on more than $1 billion in unspent infrastructure funds, according to the Property Council of Australia.

Its audit of infrastructure levies from the 2015-16 financial year for 27 councils found that $594,527,000 came in, but only $510,052,000 was spent, an increase of 11.7 per cent on the previous year.

"Councils are sitting on a billion dollars in unspent funds, funds that should be spent on providing services for the local community – funding libraries, local parks, sporting grounds," PCA NSW executive director Jane Fitzgerald said.

"This money is sitting in the bank earning interest – $30 million in interest over 2015/16 – instead of being used for the local community. This money is provided to councils to boost local facilities but instead they are hoarding it.

"With a booming population and big new growth centres across Sydney, it is vital that this money is used to ease the pressure on our community.

Ms Fitzgerald said the research provided evidence that tighter controls were needed to compel councils to "swiftly" spend funds on infrastructure.

4.3 How much debt?

What is the right amount of debt? Our view is that the maximum amount of debt relates to the impact of repayments on council's operational budget.

To reduce the impact of debt on cashflow, we identified two options:

- Interest-only loans (e.g. see Box 12 in relation to municipal bonds)
- Tilted annuity loans, where interest payments are weighted in proportion to the residential population (and therefore loan repayments increase as population / rate payer base grows).

[45] The Fifth Estate (2017), *Property Council accuses local governments of "stockpiling" infrastructure funding*, 18 May 2017, available at http://www.thefifthestate.com.au/briefs/property-council-accuses-local-governments-of-stockpiling-infrastructure-funding/91752, accessed 3 March 2017

In principle, we would recommend the tilted annuity option as a more equitable approach, as residents experience costs in proportion to the benefit they receive. This loan arrangement would also be more aligned to council's revenue profile.

Box 12 Innovations in loan types

Municipal Bonds

MAV suggested that councils should consider interest only loans to reduce the impact of repayments on operational budgets and therefore enable councils to access more finance for investment.

In 2014, the MAV established the Local Government Funding Vehicle to issue municipal bonds to provide cost-effective short-term (5 and 7 year) interest only loans. Such bonds could, for example, be used to purchase land prior to it increasing in value due to surrounding development. The volume of municipal bonds ($240 million) is small, relative to local councils' aggregate spend on infrastructure, thus reflecting the potential for higher uptake by councils.

Community Bonds

To make more transparent the link between costs and benefits of community infrastructure, we considered the potential for community bonds. Residents would provide finance for the infrastructure they vote for (e.g. through their superannuation), and it is repaid to residents with interest.

Table 7 shows the level of indebtedness of the participating councils. Indebtedness is a comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. Indebtedness is one of the VAGO's audit criteria for local government. The higher the percentage, the less the entity is able to cover non-current liabilities from the revenues the entity generates itself. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

From Table 7 it can be seen that Cardinia and Mitchell are the most indebted councils, due in part to their smaller revenue. All other councils have indebtedness ratios of less than 40%, which VAGO defines as a low risk (no concern over the ability to repay debt from own-source revenue). This is consistent with the view expressed by councils that they plan to keep debt within the VAGO criteria.

Table 7 Indebtedness of participating councils

Council	Indebtedness 2015-16 (%)[46]
Cardinia	61.45
Mitchell	41.00
Wyndham	34.49

[46] VAGO (2016), *Local Government: 2015–16 Audit Snapshot*, available at http://www.audit.vic.gov.au/publications/20161124-LG-2015-16/20161124-LG-2015-16.html, accessed 3 March 2017. Data is updated annually at https://knowyourcouncil.vic.gov.au.

Council	Indebtedness 2015-16 (%)[46]
Melton	21.79
Hume	21.71
Whittlesea	21.01
Casey	19.78[47]
Mornington Peninsula	13.77

LGV notes that 'The current debt ratios for most interface councils suggest that councils facing rapid growth have the potential to use greater levels of debt to finance aspects of their significant capital expenditure without compromising their sustainability.'[48]

While councils (and their constituents) may view low levels of debt as an indicator of fiscal responsibility, those who advocate a greater strategic use of debt financing (including LGV and MAV), see low levels of indebtedness as a missed opportunity to spread costs to the future residents who would directly benefit from infrastructure investment.

The real and perceived constraints on local government debt are summarised in Table 8. The appetite for debt is anchored downward for political reasons, and at the upper end of debt levels, potentially operational budget reasons.

One council expressed frustration that parts of the state government advocate councils take advantage of debt financing, yet overall, the message from state government to the community is highly critical of debt (e.g. commitment to budget surplus). This makes community acceptability a hurdle to using the debt lever.

The participating councils stated the view that under the Fair Go Rates cap, VAGO's indebtedness criteria should be replaced by one benchmark that relate debt levels to the rate of income growth (and therefore growth in rateable properties).

Table 8 Real and perceived constraints on debt financing

Constraint	Comment
VAGO debt criteria Medium risk warning at 40-60% for non-current liabilities over own-sourced revenue High risk warning at ratios above 60%	The community acceptability of debt is influenced by VAGO's assessment of council's indebtedness. Councils do not wish to trigger orange or red flags. However, we frequently heard that VAGO's indebtedness triggers do not reflect actual constraints on loan servicing. One council stated that in the rate capped environment, the VAGO debt criteria should reflect the ratio between loan interest rates and the growth rate of income.

[47] Casey's measure will be about 36% at the end of 17/18 – after taking out a $62m loan for a major project across 16/17 and 17/18

[48] LGV (2017), 'LGV response to the draft *Growth Study Discussion Paper* (Commissioned by the Essential Services Commission and prepared by Arup', provided via email on 27 March 2017

Constraint	Comment
Impact on operational budget	Regardless of VAGO's views, councils stated that their ability to take on debt is limited by their ability to make repayments from their operational budgets. The majority of loans are for principal and interest, with only a few examples of councils (e.g. Wyndham) that have taken interest only loans.
Community acceptability	Many councils stated that the willingness to take on debt was limited by community acceptability. The community has a negative view of debt, potentially entrenched by state and federal government commitments to surplus.
Sense of fairness	Some councils stated that all debts have to be paid eventually, and taking on debt would be unfair to the future generations that would be required to pay for it. However, as noted in Section 4.1, we believe that debt is likely to be a more equitable funding approach than fund accumulation over time.

4.4 Community conversation about debt and other trade-offs

It is noted by the VLGA that any decision by local councils to take on debt is ultimately a democratic decision for each council to be made in consultation with local residents and rate-payers. Guidance provided by the state government (as recommended by the ESC) on the responsible use of debt, particularly with respect to funding long-lived infrastructure and green field and intergenerational assets, would be useful but must also be respectful of the local decision-making authority of local councils.[49]

Fundamentally, a community must be willing to make the trade-off between:

- Desired services and infrastructure
- Rates payments and other charges
- User fees
- Debt-related costs.

If a community wants a service or infrastructure, then they must be willing to pay for it. Our view is that the link between community needs and required rates/fees is unclear to residents.

Our view is that if a council is applying for a rate cap variation on the basis of growth, it must demonstrate that the council's discussion with the community on the trade-offs between rates, charges, fees and debt was robust and that the community has made an informed choice.

[49] VLGA (2016), Letter submission to *Infrastructure Victoria Laying the Foundations, available at* http://yoursay.infrastructurevictoria.com.au/30-year-strategy/application/files/6614/5922/7858/LTF29_-_A_Hollows_-_Victorian_Local_Governance_Association.pdf, accessed on 13 September 2017

What could an effective community discussion about trade-offs look like? The ESC has produced guidance and case studies to support councils on community engagement.[50] This guidance is relevant to the wide range of councils across Victoria (of varying size, geography and growth phase).

As an example of in-depth consultation is the City of Melbourne's approach to testing its 10-year financial plan with a community panel (Box 13).

[50] ESC (last updated April 2016), *Fair Go Rates System Guidance Material*, available at http://www.esc.vic.gov.au/project/local-government/29079-fair-go-rates-system-guidance-material/, accessed on 13 September 2017

Box 13 City of Melbourne People's Panel

The City of Melbourne asked: *How can we remain one of the world's most liveable cities while addressing future financial challenges?*

The People's Panel of 43 randomly selected Melburnians was formed to make recommendations to Council on its spending and revenue strategy over the next decade. Since August 2014, the diverse group of residents and ratepayers were given open access to information, expert opinion and financial data to inform its recommendations.

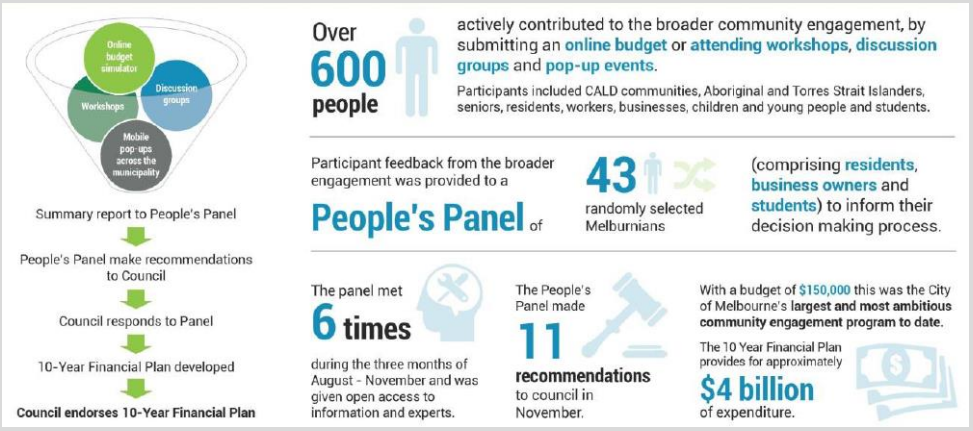
The City of Melbourne considered the citizens' jury approach is a legitimate and genuine engagement process, which builds trust and helps solve hard problems.

The People's Panel developed a series of recommendations that were presented to Council in November 2014. These recommendations covered topics as diverse as:

1. Rates
2. Environment, sustainability and climate change
3. Activate city
4. Asset portfolio
5. Queen Victoria Market redevelopment
6. Borrowing
7. Bike lanes and footpaths
8. Advocacy
9. Community services
10. Operational efficiency
11. Capital works

The recommendations highlight the trade-offs that were considered during the process, including the balance between rate increases to fund new infrastructure to service a growing population and sharing costs through developer contributions or debt funding.

For more information including a detailed case study, visit https://participate.melbourne.vic.gov.au/10yearplan



5 Under what circumstances might it be appropriate for growth area councils to increase their rates income beyond the cap?

In accordance with *Local Government Amendment (Fair Go Rates) Act 2015*, the ESC is required to take note of:

(d) how the higher cap is an efficient use of council resources and represents value for money; and

(e) whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate

On the basis of the discussion in this paper, Table 9 provides a series of questions to assist the ESC and applicant councils to discuss the impact of growth on council finances. A council's response to these questions along with appropriate supporting documentation could support the ESC in determining whether or not councils have made full use of relevant best practices in managing growth, before resorting to an increase in the rates cap.

Table 9 Recommended questions and example responses

	Question	Circumstances that potentially warrant a variation to the rates cap	Relevant report section
1	What is the forecast rate of population growth in your municipality over the next four years?	We expect that growth in rateable properties is greater than 3% per annum may present challenges to staying within the rate cap.	2.1
2	What percentage of your expenditure is related to the delivery of new infrastructure: a) capital works b) salary for staff in primarily asset management and delivery functions	This is likely to be at least 30%. The higher the percentage, the greater the required variation from the rate cap. We believe that the infrastructure delivery component of a growth area council's budget is what will be a primary driver of the need to deviate from the rate cap.	2.2
3	What is your approach to asset management and delivery?	We expect that a council that is effective and efficient will have a systematic approach to the elements of ISO 55000 *Asset Management—Overview, principles and terminology*, and have a unified organisational focus on infrastructure planning and delivery.	3.2
4	What alternative infrastructure delivery models have you considered?	If a council has nominated specific priority projects, then we expect council to have undergone a systematic options evaluation which covers non-traditional approaches such as temporary solutions and regional scale delivery.	3.4

	Question	Circumstances that potentially warrant a variation to the rates cap	Relevant report section
5	Have you made full use of the available income?	We expect that councils will describe their approach to: • Actively managing DCPs and ICPs • Timely supplementary valuations • Nuanced investigation, testing and consultation of the community's ability to pay for different services and acceptable / fair levels of user subsidy. • Developing a feasibility study for the use of special rates schemes in growth precincts.	3.3
6	What is your approach to debt? How much and what type of debt have you considered?	We expect that a council will have a policy around debt financing, including principles of equity and efficiency, and acceptable impacts on its operating budget. Councils should also have a detailed understanding of the types of loans available and how it can access finances cost-effectively.	4.3
7	Have you had a robust consultation process that included discussion with the community on the trade-offs between facilities and services, charges, rates and debt?	We expect that a council will have explicitly informed the community of the funding options and levels of services available to it, and that the community has endorsed increased rate payments as a fundamental strategy for funding growth. This requires a truly informed discussion with financial transparency and genuine responsiveness by council.	4.4

6 Next steps

6.1 Key findings of this study

There are special circumstances related to growth. These circumstances are driven by the cost of infrastructure delivery.

There is room for councils to become more effective and efficient in managing its assets. The transition to an advanced or strategic asset management approach, from a basic approach, requires planning and capacity building.

Councils need to bring to the foreground for their residents the trade-off between services, charges, rates and debt.

If robust community engagement is undertaken, and the community advances the position that they are willing to pay more through rates for new infrastructure, then the ESC could facilitate this variation.

6.2 Areas for further investigation

Throughout the study we have identified where our analysis is inconclusive and areas for improvement that require further analysis. These items are summarised in this section. In some cases, the identified actions go beyond the remit of the ESC's role in regulating local government rates.

6.2.1 Council organisational capabilities

As discussed in Section 3.2, a substantial part of the business of growth area councils is asset development for social benefit. It is not clear to us what the right business model and incentives are to support a streamline approach to managing growth.

The capabilities for service delivery and asset delivery/management are very different. Most of the service delivery staff in a council have a community focus, versus the engineering/project focus required of asset management-related staff.

While both sides of the organisation are working to the strategic goals, the service versus engineering components of the organisation require different skill sets, incentives, and scale of decision making. The capability gap is especially acute for rural/regional councils.

Potential solutions that could be investigated include:

- What if the rate cap was applied at the level of different local government expenditure categories (i.e. capital and operating expenditure)?
- What if the asset delivery arms of local government were pulled into an arms-length organisation? A regional scale infrastructure delivery organisation would more easily enable bulk procurement, sharing of skilled staff, bundling of projects to better negotiate with financiers, and sharing lessons learned.

6.2.2 Benchmarking local councils against best practice asset management approaches

As discussed in Section 3.2, it would be useful to benchmark various growth councils against the National Asset Management Assessment Framework, ISO 55000 standard or similar. Identifying their level of maturity would clarify the progress required and the gains in effectiveness available to councils.

6.2.3 Innovations in debt

As summarised in Box 13 in Section 4.3, the MAV already has a program for municipal bonds. There is an opportunity to investigate and articulate the role of interest-only finance. This is matter of much debate among stakeholders and experts alike.

Do tilted annuity bonds (see Section 4.3) targeted toward the types of council-delivered infrastructure exist? What precedents are there for community bonds? How do we build local government capacity to engage with Public Private Partnerships?

All of these innovations in finance would require more financial capability than councils currently have access to, and potentially a larger scale of project pipeline.

6.2.4 Investigating what robust community consultation looks like

There is no single right answer in the trade-off between rates and charges, user fees, level of service and debt. What scope and tools of community engagement best support a robust discussion of the trade-offs? As noted in *Local Government Asset Management Better Practice Guide*, these community conversations are necessary for addressing the difficult problems of prioritisation.

6.2.5 Barriers on the use of special rates schemes to fund localised growth

As discussed in Section 3.3.6, there may be a useful study into the benefits and barriers to using special rates schemes to directly fund local and regional infrastructure for new communities. The lessons to be learned from a generalised feasibility study of this kind could be shared among growth area councils.

6.2.6 Alternative delivery models for infrastructure

As discussed in Section 3.4.2, the scale of the benefit in regional and shared models of delivery could be substantial, as shown by the regional animal welfare facility example. From our experience, we know that the financial and legal barriers to alternative delivery models can appear insurmountable. There may be a study in sharing lessons learnings and approaches from successful and unsuccessful attempts at innovation of this kind.

Appendix A

Profile of participating interface / growth area councils

A1 Growth precincts

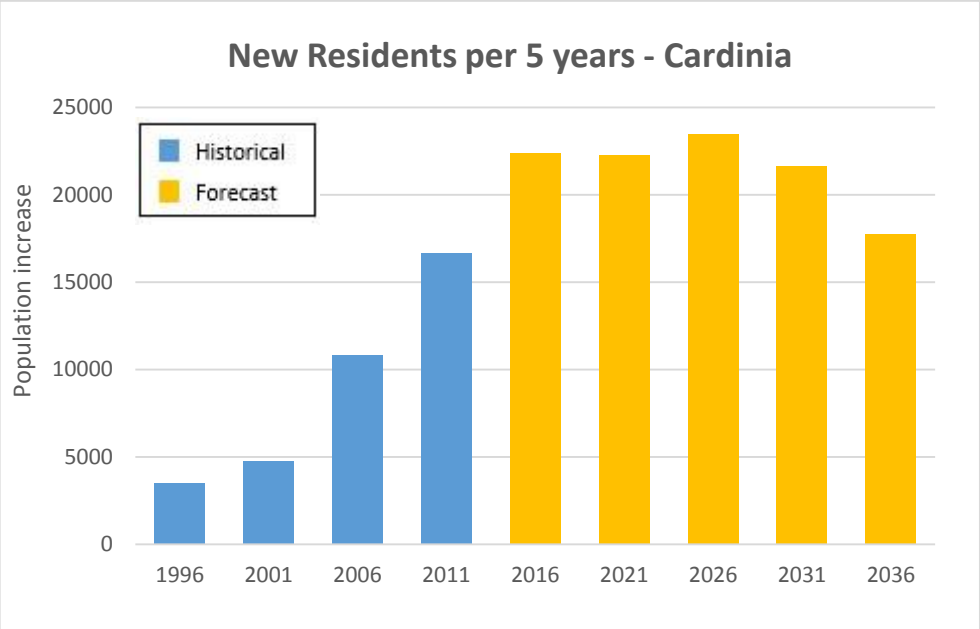
Table A1 Council growth profile

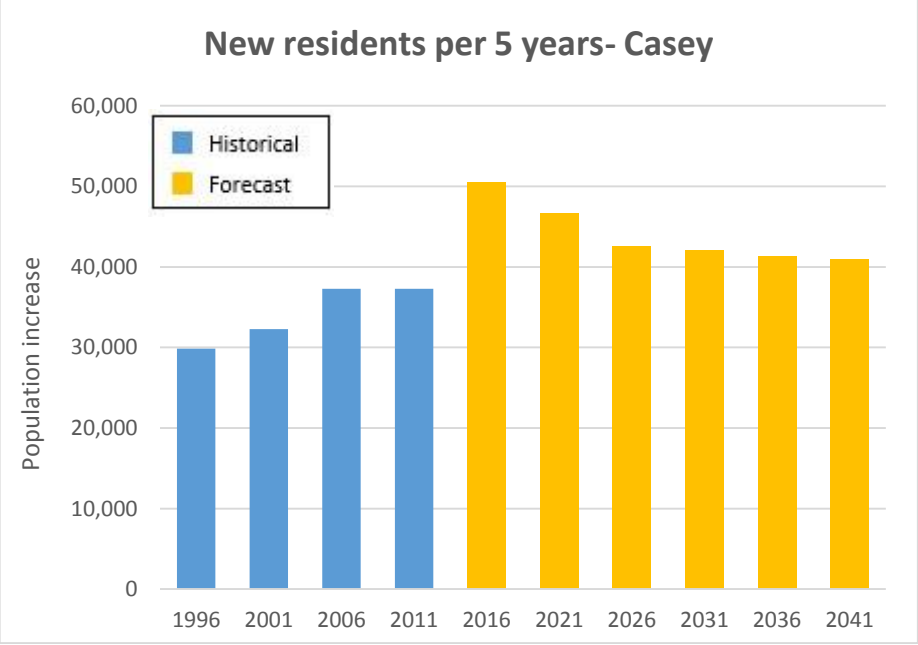
Council	How councils forecast growth/ data sources	Growth precincts (past & present)	Planned developments/ growth (future)
Cardinia	forecast.id	Areas: Pakenham, Emerald, Cockatoo	Areas: Officer, Cardinia Rd, Pakenham (East) Forces: less greenfield area in Casey, young families (natural increase rather than migration)
Casey	forecast.id	Areas: Narre Warren South, Berwick (South), Lynbrook-Lyndhurst, Cranbourne (East & West) Population nearly doubled in past 15 years, with growth since 80s	Areas: West Cranbourne, Botanic Ridge, Clyde North, Cranbourne (West), Berwick Forces: young families forming own households (high proportion of young children and parents)
Hume	forecast.id + strategic planning	Areas: Annadale, Woods, Merrifield 7 DCPs in Northern Corridor	Areas: Merrifield West, Folkstone, Sunbury 8 DCPs planned in Northern Corridor
Melton	Urbis (bottom-up technique)	Areas: Melton North, Toolern (Park), Rockbank North, Diggers Rest, Taylors Hill West, Robinson Rd Employment Areas (North & South)	Areas: Melton West, Paynes Rd, Rockbank, Plumpon, Kororoit, Mt Atkinson, Tarneit Plains, Bulmas Rd, Minns Rd, Melbon East, Warrensbrook, Rockbank South, Warrawee, Ravenhall, Derrimut Fields, Cartwell East Growth rate to increase until 2020
Mitchell	forecast.id	Areas: Beveridge, Wallan, Kilmore and Broadford.	Areas: Beveridge, Wallan, Kilmore and Broadford. Estimated population growth of approximately 120,000 people within the southern portion of Mitchell that will be mostly spread across 7 Precinct Structure Plan areas. There is also anticipated to be population growth for the peri-urban townships of Kilmore and Broadford.
Mornington	forecast.id	Areas: Mornington, Mt Martha, Hastings, Dromana, Rosebud, Bittern-Crib Point	Areas: Martha Cove, Bittern/ Crib Point, Dromana/ Safety Beach, Hastings

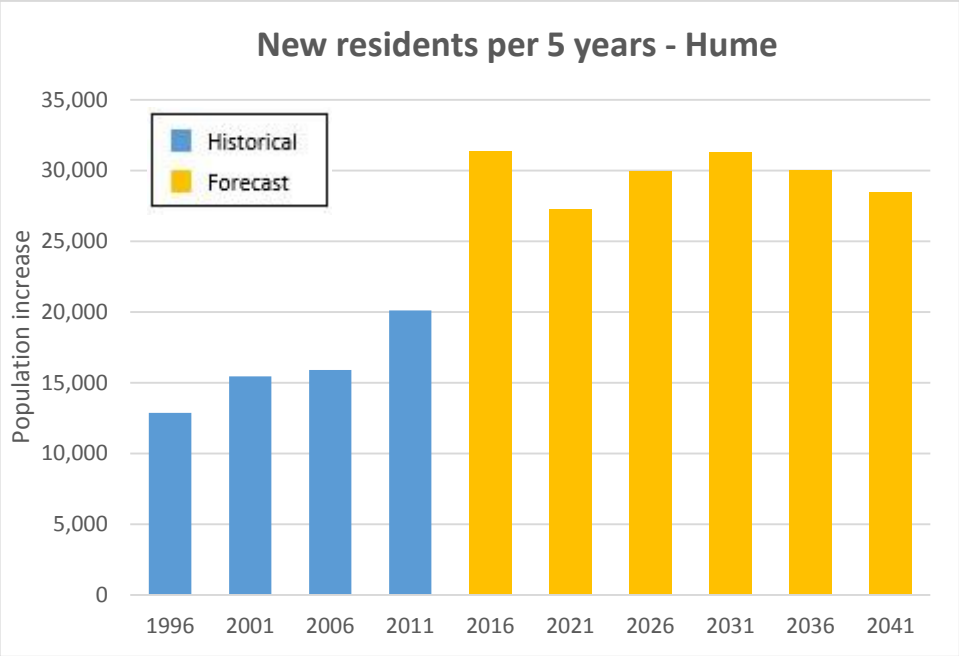
Council	How councils forecast growth/ data sources	Growth precincts (past & present)	Planned developments/ growth (future)
		No huge growth - mainly retirees, 'empty-nesters', holiday homes Almost all greenfield opportunities have been developed	Most future opportunities are infill
Whittlesea	forecast.id & council household survey (2014/15)	Areas: Bundoora, Doreen, Epping, Lalor, Mernda, Mill Park, South Morang, Thomastown High proportion of mortgagee households	Areas: Mernda-Doreen (now-2020) Epping North (2020-2025) Donnybrook & Wollert (2025-2035) More young people, young families, non-english speaking backgrounds, lower median household income, more separate dwellings than Greater Melbourne
Wyndham	forecast.id	Areas: Werribee, Hoppers Crossing 70s/80s substantial residential expansion, then 2013-16, now heading in to third wave	Areas: Tarneit, Truganina, Williams Landing, Point Cook (West & South), Wyndham Vale (Manor Lakes, Ballan Rd, Westbrook) Greatest population change forecast for next 4 years Green wedge zonings apply to 60% of land area so agriculture protected

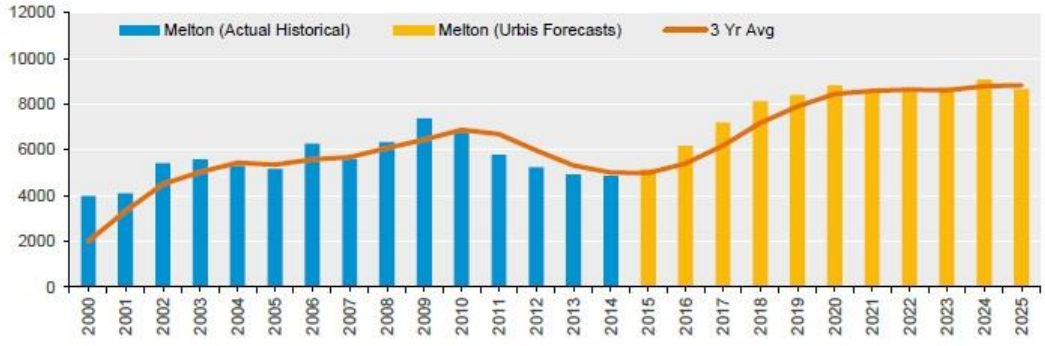
A2 Growth forecasts

Data in this appendix is sourced from forecast.id with the exception of Melton which was sourced from Urbis.

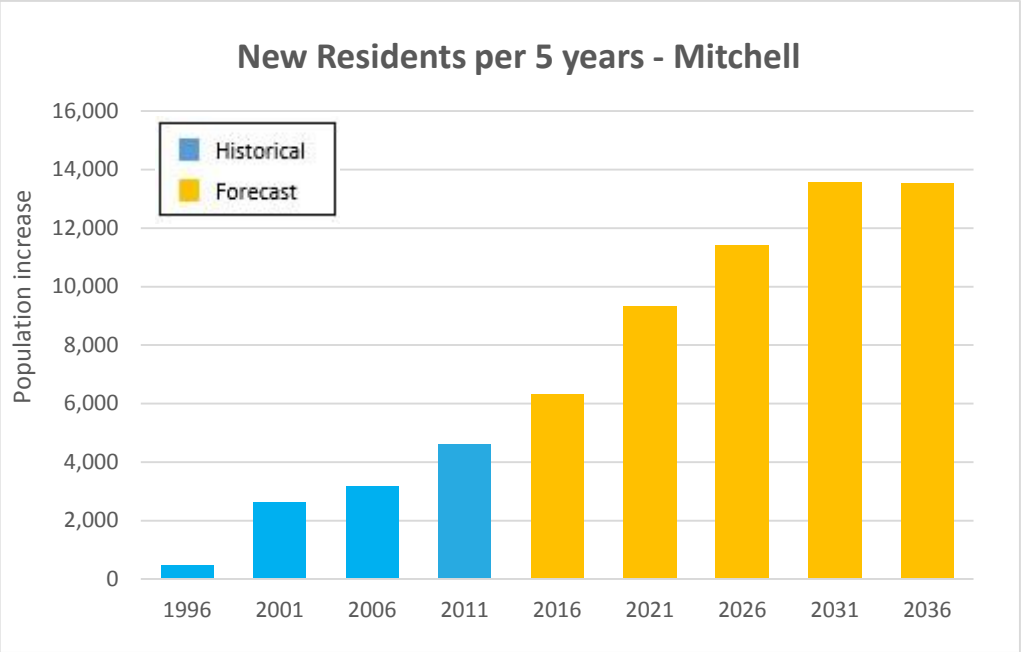


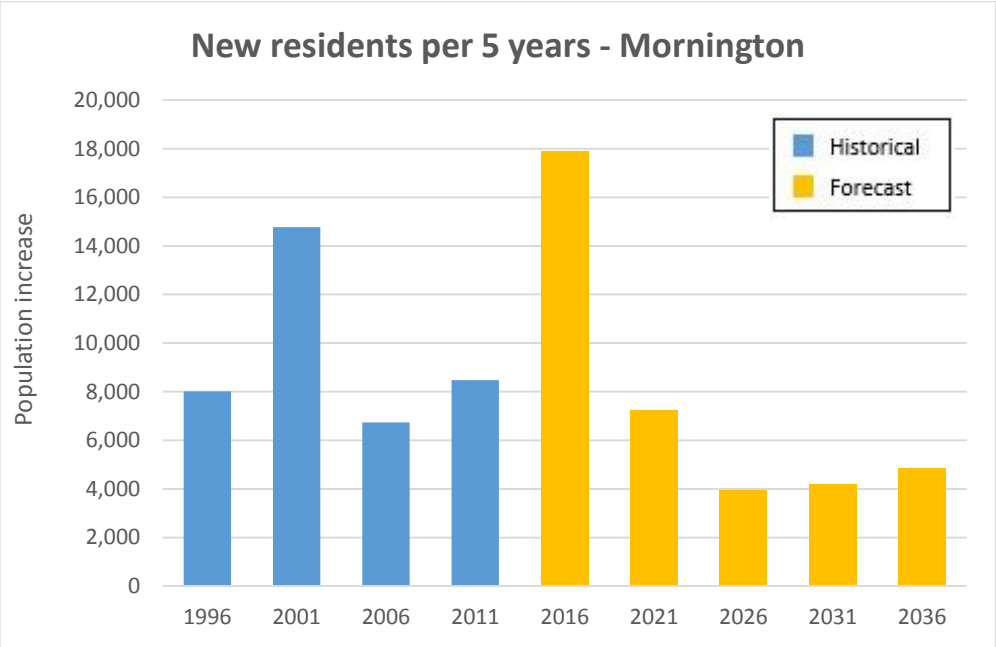


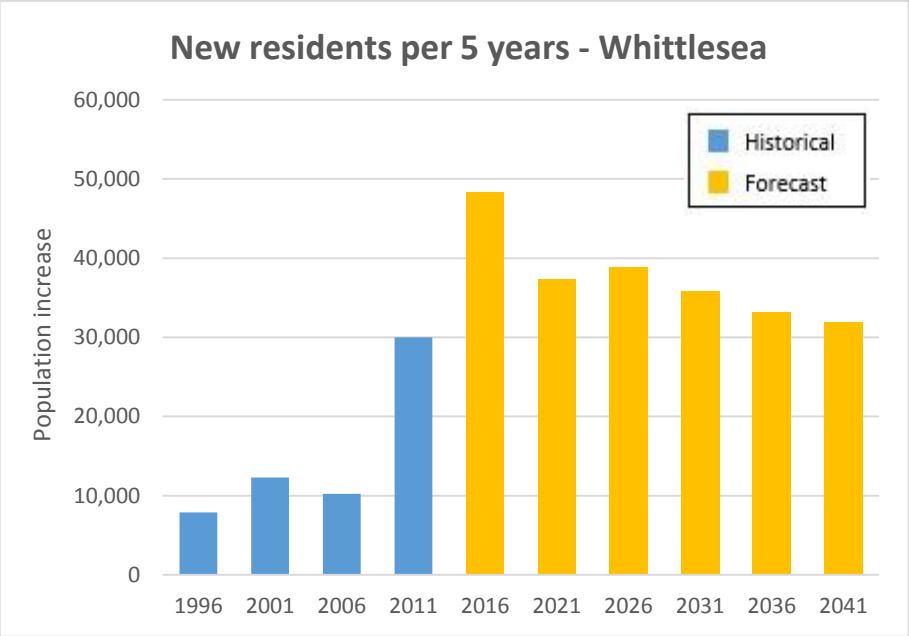


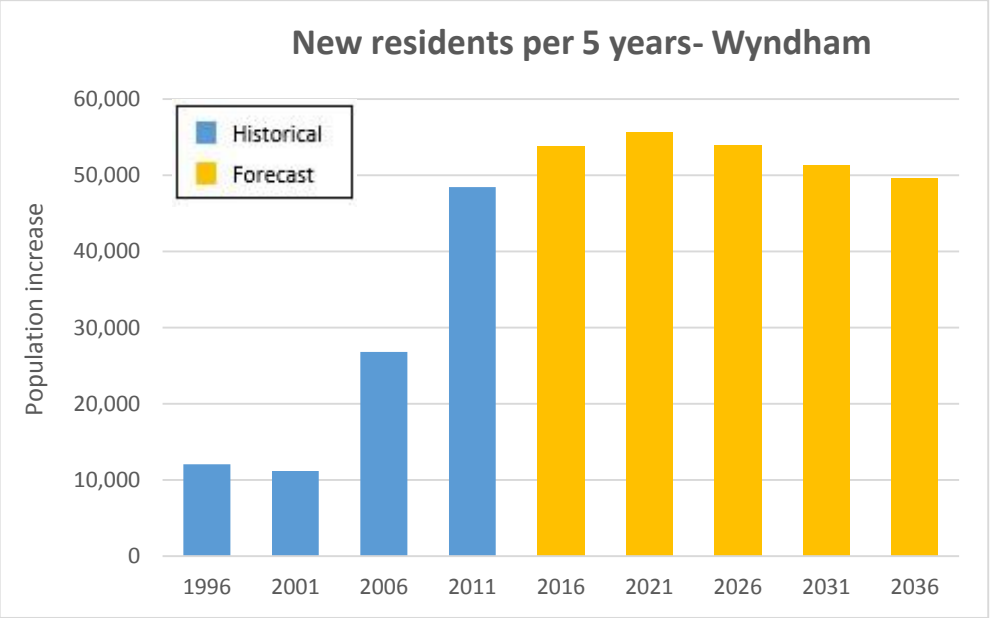


Source: Urbis, 2015, Melton PSP Population Forecasts


New Residents per 5 years - Mitchell
Population increase
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Historical
Forecast
1996
2001
2006
2011
2016
2021
2026
2031
2036


New residents per 5 years - Mornington
Population increase
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Historical
Forecast
1996
2001
2006
2011
2016
2021
2026
2031
2036


New residents per 5 years - Whittlesea
Population increase
60,000
50,000
40,000
30,000
20,000
10,000
0
1996
2001
2006
2011
2016
2021
2026
2031
2036
2041
Historical
Forecast


New residents per 5 years- Wyndham
Population increase
60,000
50,000
40,000
30,000
20,000
10,000
0
1996
2001
2006
2011
2016
2021
2026
2031
2036
Historical
Forecast

A3 Historic economic trends

Population is growing

Figure A1 shows that in the past 11 years, the number of households has increased by an average of 3-4% across the subject councils. Clearly there is some range here, the lowest rate of growth experienced by Mornington (0.5% in 2011) and highest by Melton (8.4% in 2006). In comparison Boroondara experienced consistently low growth rates (an average of 1.0% per annum) and Moreland, while higher than Boroondara was still low compared to the growth area councils (at an average of 2.0% per annum).

Population forecasts (refer to Appendix B) indicates annual population increase will continue at least to 2040. Casey, Hume, Mornington and Whittlesea currently experiencing maximum rate of population growth. Wyndham and Melton will experience peak growth rates from 2020. Mitchell and Cardinia are heading towards peak growth rates around 2025-2030.

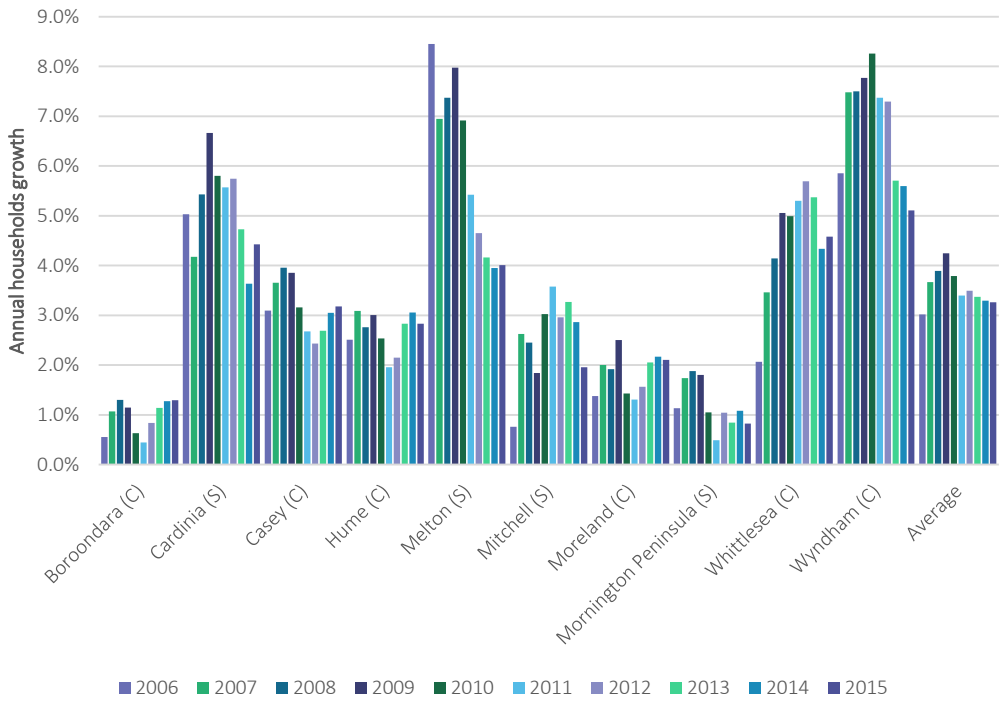


Figure A1 Annual growth in the number of households by council

As population grows, council expenses increase

Figure A2 shows that over that time, council expenses have tracked household growth very closely; this can be observed by viewing the figure as a whole. The exception here is Cardinia which shows expenses consistently below other councils with similar populations. It is noteworthy that Boroondara and Wyndham (the extremes of growth rates considered here) both broadly fit with the trendline of the growth area councils, suggesting at a high level they are ultimately similar in this respect. This makes sense as their ultimate remit is no different from other councils.

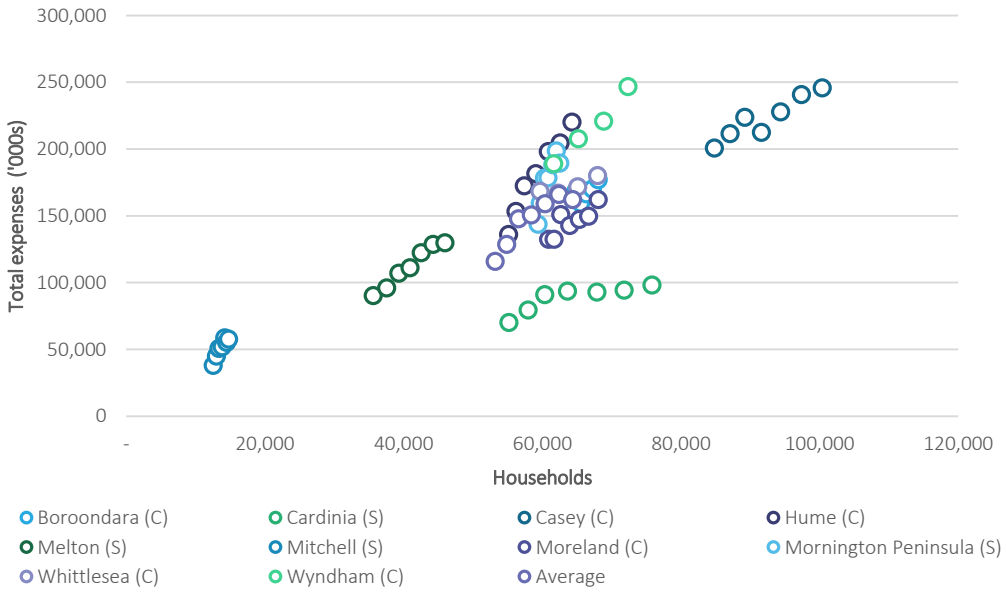


Figure A2 Household and total expenses by council

Rates are an important source of revenue

Figure A3 shows that for all councils, rates and charges provide the key source of income across all councils analysed. The average contribution that rates and charges made to revenue was 53% but this masks significant variation. The lowest was Wyndham at 40% with the highest three being Booroondara (76%), Moreland (70%) and Mornington Peninsula (68%).

It is notable that these three councils are also the three with the lowest population growth rates of the sample group – an outcome that appears to make sense intuitively; growing councils should be receiving a higher proportion of their income in the form of developer contributions and grants, thereby reducing their reliance on rates and charges. Developer contributions are committed funds for capital works and therefore not available for the operational costs of councils. Similarly, some grants (e.g. Growing Suburbs Fund) are targeted at specific types of projects.

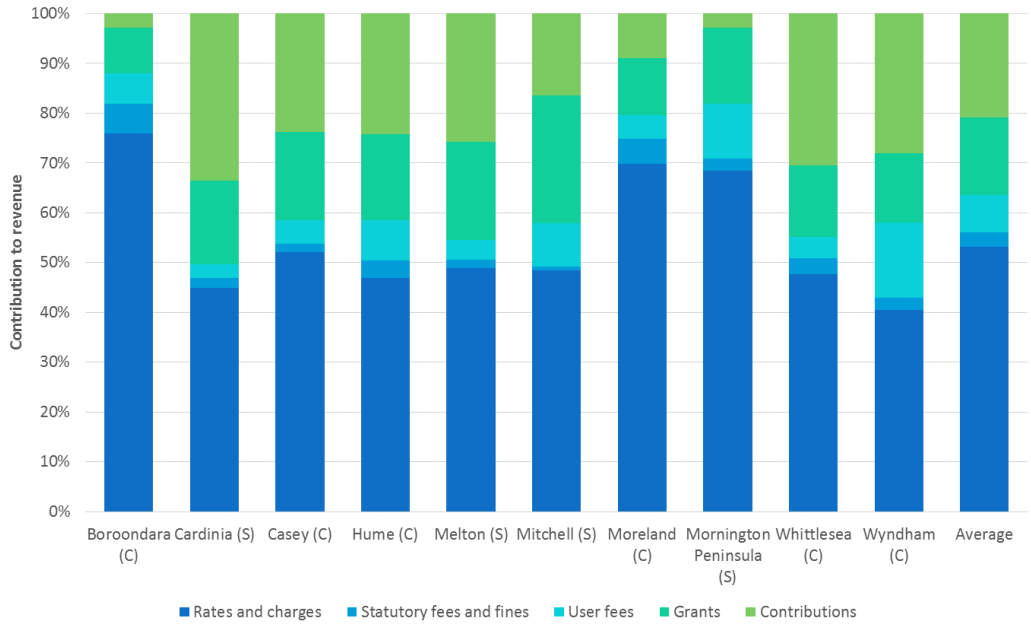


Figure A3 Composition of revenue by council, 2015

Historically, rates income has matched population growth

Figure A4 shows a strong correlation within the councils between rates and charges and number of households. This holds true for Boroondara, Moreland and the growth area councils. This may not be surprising but it is nonetheless instructive to present.

A key finding of the below figure relates to the gradients that would accompany a line of best fit within each council. These gradients, or the steepness of the trend within the councils, represents the additional rates and charges recovered for an additional person in the council's area.

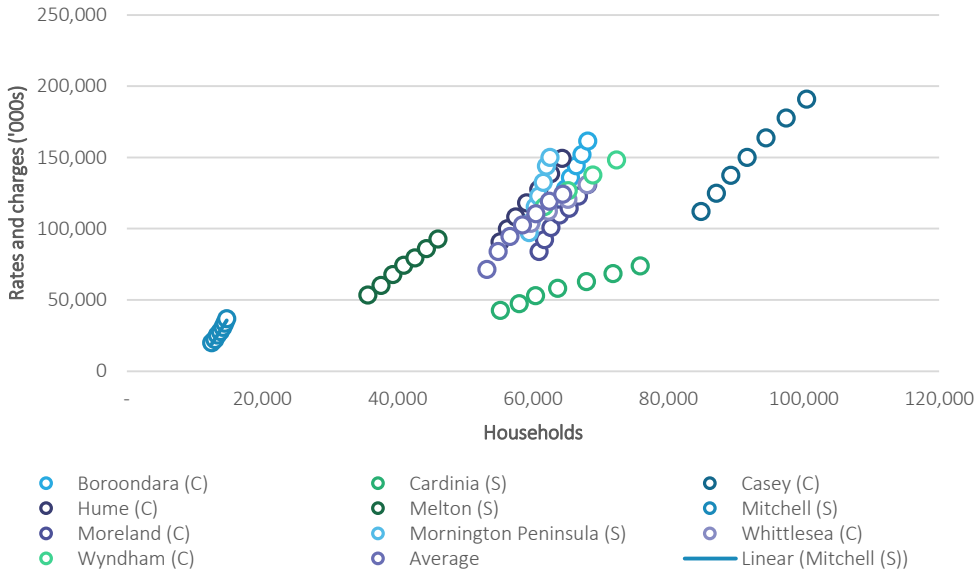


Figure A4 Number of households against rates and charges

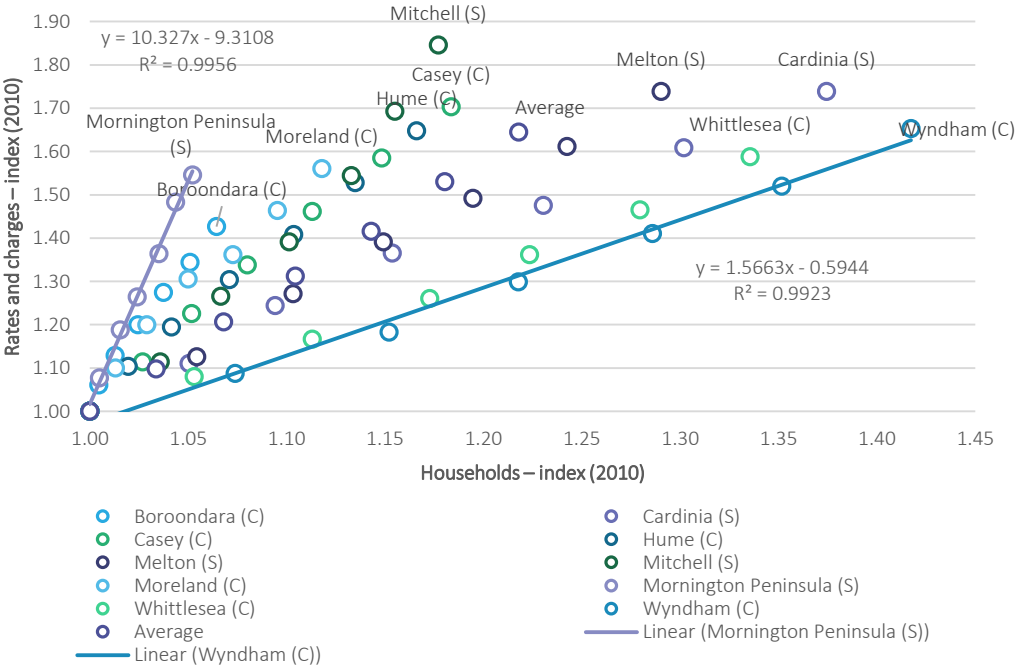


Figure A5 Number of households against rates and charges – indexed

Figure A5 shows the same data as Figure A4 but each category has been indexed such that 2010 data equals one. This change means that the gradient of the best fit line now represents an incremental increase. It is notable that even the lowest growth gradient (Wyndham) implies that a 10% increase in population would be met by a 16% increase in rates and charges, showing that even for the council that has increased rates and charges the least when compared to households, the growth in rates and charges has outstripped households growth over the period analysed.

However, the growth of rates income has slowed over time

Figure A6 again shows rates and charges plotted against households, this time categorised by year rather than by council. This figure shows a stratification of growth rates over time, with higher rates and charges growth rates typically in earlier years and higher growth rates in later years, regardless of population growth rate. That is to say, the highest rates and charges growth rates are predominately from 2011 and 2012 while the lowest growth rates largely relate to 2015 and 2016.

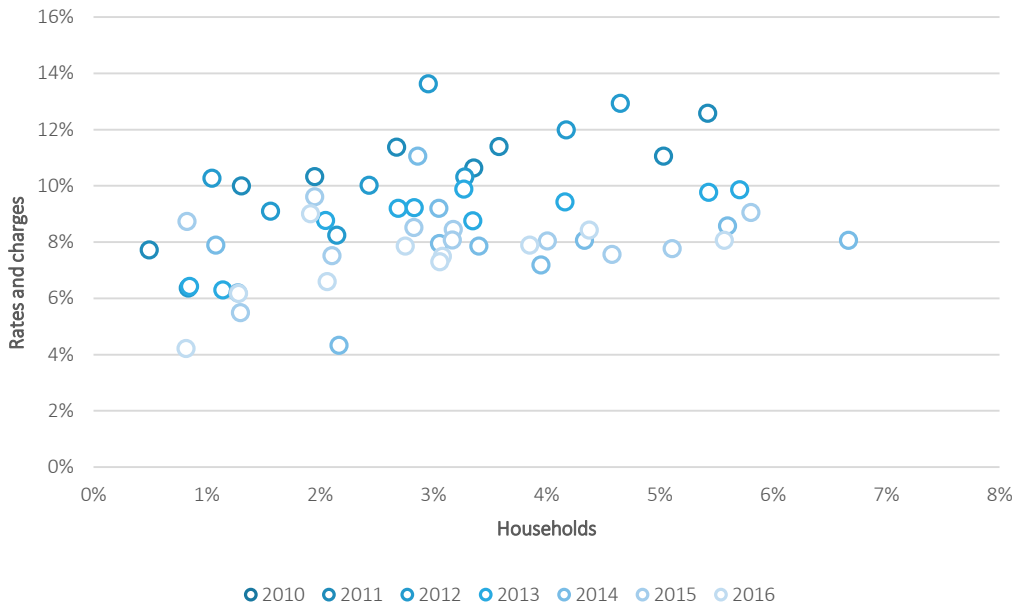


Figure A6 Indexed household against rates and charges over time

It is not possible from the data to identify the reasons for this trend of decreasing growth in rates and charges over time. Possibilities include:

- The gap between council costs and income has narrowed
- Other sources of income have increased to reduce the requirements on rates
- Council has limited rates growth based on community acceptability or other socio-economic constraints
- Commercial properties now represent a larger proportion of rateable properties.

With the capping of rates, future analysis should show minimal growth of rates income per household

Figure A5 highlights there was a disproportionate increase in rates and charges compared to household growth. The figures above suggest that – given the trend in historical data – the elevated level of growth in rates and charges compared to households would likely continue if council's approach remained as 'business as usual'. By capping rates and charges, this result would change and the gradient in Figure A5 would be approximately 1 across the councils (plus an allowance for CPI and changes in property prices).

A4 Socio-economic characteristics across participating and comparator municipalities

	Employment	Area	Economic performance	Net Origin-Destination	Median household sale	Total households	Household size	Residential building approvals - $m	Non-residential building approvals - $m	Median income	Rates per person	Rates : Income	Employment : Population
	Persons (2011)	Square kms	Score (2011)	Trips	2013 $	Households (2011)	Persons per household (2011)	2014 $m	2014 $m	2013 $	Average rates ('000s) PP 2010-15	Ratio 2010-16	Ratio (2011)
Boroondara (C)	159,183	60	1,163	-16,422	1,250,000	57,233	2.6	741	180	53,383	0.33	74%	0.48
Cardinia (S)	74,174	1,282	961	-18,750	352,948	25,038	2.8	320	111	46,012	0.68	44%	0.48
Casey (C)	252,380	409	957	-66,487	380,000	80,473	3.0	613	213	46,246	0.20	48%	0.46
Hume (C)	167,562	504	932	3,774	350,000	52,245	3.1	407	478	45,845	0.30	47%	0.41
Melton (S)	109,258	528	949	-32,620	355,000	34,974	3.0	396	142	48,931	0.46	41%	0.45
Mitchell (S)	34,637	2,862	941	-5,786	325,000	11,814	2.7	137	57	47,000	1.51	47%	0.45
Moreland (C)	147,242	51	1,048	-35,286	539,000	55,846	2.5	363	71	48,188	0.35	67%	0.45
Mornington Peninsula (S)	144,608	724	1,001	-18,883	510,644	54,152	2.5	517	121	43,290	0.36	65%	0.43
Whittlesea (C)	154,879	490	955	-29,307	390,000	50,224	3.0	734	232	46,322	0.32	49%	0.44
Wyndham (C)	161,576	542	980	-31,245	353,000	52,801	2.9	840	370	49,562	0.30	42%	0.46
Average	138,480	821	969	-26,066	395,066	46,396	2.8	481	199	46,822	0.50	50%	0.45

Appendix B

Precinct development process and council resource requirements

In growth areas, much of the development takes place under the guidance of a precinct structure plan (PSP), which is the long term development plan created and managed through the Victorian Planning Authority (previously the Growth Areas Authority).

The typical process of a growth area development can be summarised in Table B1. As shown in Figure B1, local government is involved throughout the process of a development, with increasingly intense levels of investment as the community matures.

A municipality may have multiple development areas (either covered by a PSP or not) at any time, all at different stages of development. As an organisation, Council must manage the allocation of human and financial resources across multiple development precincts, making management increasingly difficult. Figure B1, although a simplistic view, shows how intense investment is across the course of a project. Coupled with multiple projects occurring simultaneously, with varying commencement dates, highlights the complexity of managing development.

Table B1 Stages of growth for a precinct (lead responsibility in bold)

Activity	Local Government Responsibility	Others Responsibility	
Stage 1: State planning			
a. Melbourne 2030 planning	• Provides extensive feedback	• **State Government**	*Timing: 2 – 5 years*
b. Growth Area Framework Plan	• Provides extensive feedback (in Melbourne, elsewhere may be responsible for preparing these including commissioning technical reports, planning and coordination)	• **Victorian Planning Authority (VPA)**	
c. Rezoning land	• **Usually the responsible authority** • Prepares report(s) including report and representation at Panel if required (may include commissioning of expert reports)	• Minister for Planning • Proponents for rezoning and development usually responsible for reports, including independent expert analysis	
Stage 2: Precinct structure planning			
Precinct structure plan and developer contributions plan	• May prepare PSP alone or in conjunction with VPA • Otherwise responds to plans prepared by the VPA, including reports to Panel and commissioning of experts	• **Victorian Planning Authority (VPA) as directed by Minister for Planning**	*Timing: 1.5 – 3 years*
a. Assessments • Environmental • Geotechnical	• May need to undertake assessments as part of broad strategic planning work or for particular developments for which Council is the proponent.	• **Development proponents** usually responsible for commissioning independent assessment	

Activity	Local Government Responsibility	Others Responsibility	
• Cultural heritage • Disaster management	• Some in-house expertise but will usually commission external experts	• State Government undertakes some broad strategic assessment but this rarely goes to the detail required for development assessment	
b. Developer contribution plan	• Yes, usually requires a **planning panel and will be signed off by the Minister for Planning** as part of the wider development, e.g. a PSP approval	Input to determine what contribution plan comprises of required by: • developer • local government • service authorities • other relevant parties.	
c. Council and State agency consultation	• Yes, as part of PSP Panel hearing process		
d. Community engagement and exhibition	• Yes		
e. Review submissions	• Yes		
f. Approvals	• Yes	• **Minister for Planning** (incorporates precinct plan into local planning scheme)	
Stage 3: Developer master planning and approvals			*Timing: 0.5 – 1.5 years*
a. Developer master planning	• Review	• **Developers**	
b. DCP and works in kind agreement management	• Yes		
c. Developer application to Council for development approval	• Yes	Primary responsibility is the **developer** but local government input would be required to guide developer and approve plan.	
Stage 4: Site preparation			*Timing: 1 – 1.5 years*
a. Land remediation works	• For sites that Council is developing		
b. Engineering works (planning)	• For sites that Council is developing and decisions on planning applications	• In conjunction with other stakeholders	
i. Potable water and sewerage	• In part - Significant input required from local government or governing body responsible	• Primary responsibility is **water authority**.	

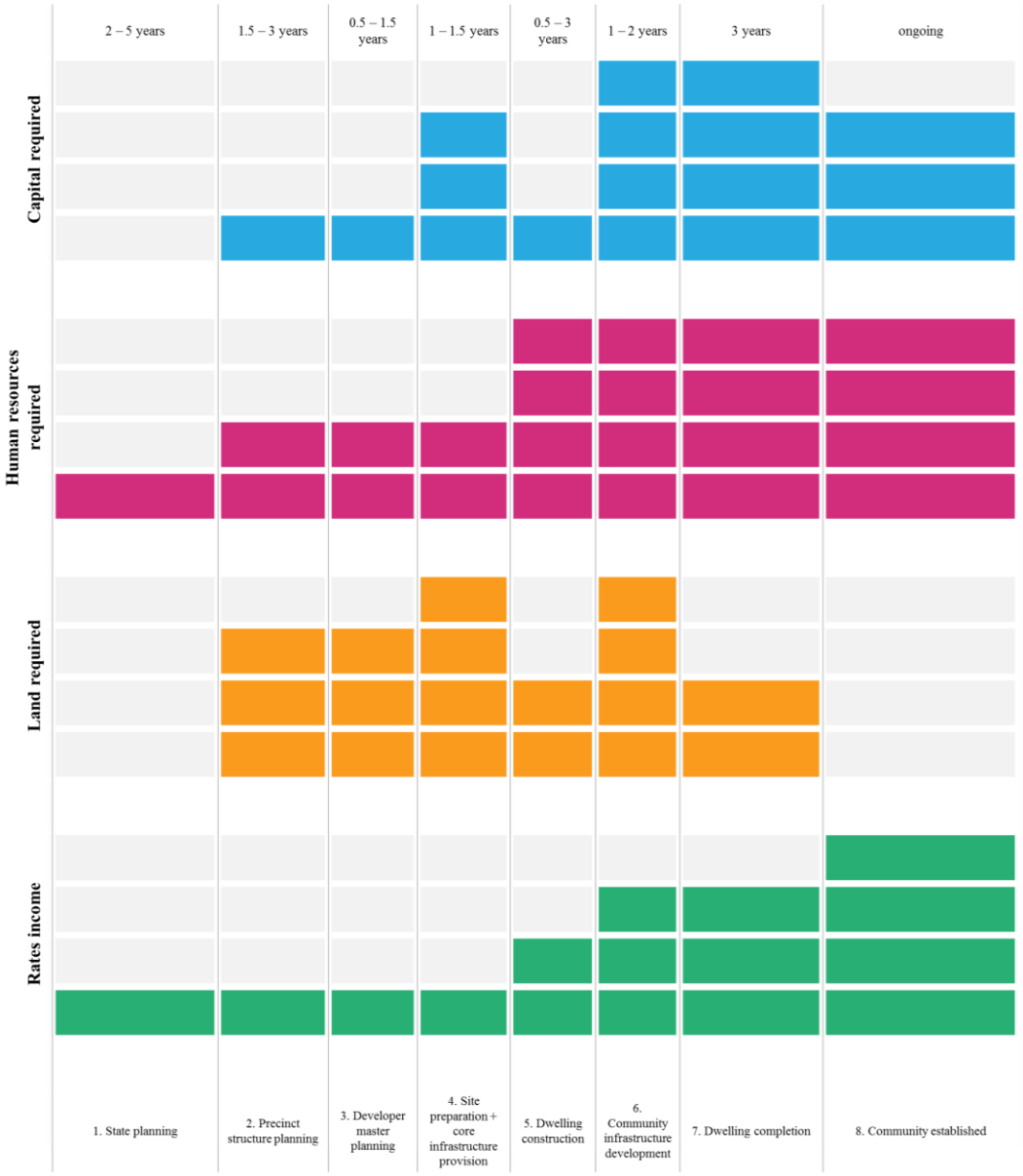
Activity	Local Government Responsibility	Others Responsibility
	for development (VPA, etc.) regarding expected demands, growth rates, etc.	
ii. Emergency water/fire fighting	• Decision following advice from **referral authority** (CFA etc)	
iii. Storm water pipes and storage	• **Yes - Predominantly local government responsibility**.	• Some liaison may be required with Melbourne Water, depending on location of local creeks or discharge location.
iv. Electricity	• In part - Significant input required from local government or governing body responsible for development (VPA, etc.) regarding expected demands, growth rates, etc.	• Primary responsibility is the **electricity distributor** (CitiPower / Powercor).
v. Gas	• In part - Significant input required from local government or governing body responsible for development (VPA, etc.) regarding expected demands, growth rates, etc.	• Primary responsibility is the **gas distributor**.
vi. Internet		• Civil work – here is the specification for the pit (**developer**)
vii. Roads	• Yes, **local government** is responsible for local roads, pathways and roadside areas on all arterial roads and all road elements on municipal roads	• **VicRoads** is responsible for declared roads in urban and non-urban areas.
viii. Transport infrastructure (train extensions, bus stops/depot)	• Input would likely be required from local government.	• **State Government and service providers**
ix. Footpaths, cycling paths + bike shelters/parking facilities	• Yes	
x. Bridges	• Yes	• Bridges on arterial roads or freeways are the responsibility of **VicRoads**. • Bridges over waterways will likely require input from Melbourne Water but will be the

Activity	Local Government Responsibility	Others Responsibility
		responsibility of local government.
c. Engineering works (construction - enabling works) - build as required		
i. Potable water / sewerage	• Minor. TBC by service authority.	• **Water authority** are responsible for the works with contribution almost certainly required by the developer.
ii. Storm water pipes and storage	• Yes - **Local government** is responsible for the construction of stormwater infrastructure.	• Melbourne Water may be responsible for the construction or augmentation of major infrastructure.
iii. Electricity	• Minor. TBC by service authority.	• **Energy distributor** are responsible for the works with contribution almost certainly required by the developer.
iv. Gas	• Minor. TBC by service authority.	• **Gas distributor** are responsible for the works with contribution almost certainly required by the developer.
v. Communication		• **NBN Company**
vi. Roads	• Yes - **Local government** is responsible for local roads, pathways and roadside areas on all arterial roads all road elements on municipal roads. They may choose as per a contract agreement to pass on the road construction works to the developer.	• **VicRoads** is responsible for declared roads (freeways and through traffic lanes on arterial roads in urban and non-urban areas). •
vii. Transport infrastructure (train extensions/stations, bus stops/depot)	• Review and response by local government	• **State Government and service providers**
viii. Footpaths, cycling paths + bike shelters / parking facilities	• Yes - Local government is responsible for pathways and roadside areas on all arterial roads, all road elements on municipal roads, cycling paths and parking facilities. They	

Activity	Local Government Responsibility	Others Responsibility	
	may choose as per a contract agreement to pass on these construction works to the developer.		
ix. Bridges	• Yes - Bridges over waterways will likely require input from Melbourne Water but will be the responsibility of local government.	• Bridges on arterial roads or freeways are the responsibility of VicRoads.	
Stage 5: Dwelling construction			*Timing: 0.5 – 3 years*
a. Construct dwellings	• Building enforcement. • Record keeping – statutory requirements under Building Act.	• **Developers**	
b. Planning approvals (increasing)	• **Yes**		
Stage 6: Community infrastructure development			*Timing: 1 – 2 years*
a. Economic development infrastructure	• Potentially. May be responsible for business incubators or other semi-commercial buildings	• **Developers**	
b. Transportation infrastructure	• Construction of new infrastructure • Planning approvals	• **State Government and service providers**	
c. Waste management infrastructure	• Strategic planning and planning approvals	• **State Government and service providers**	
d. Education infrastructure	• Planning approvals	• **State Government and service providers**	
e. Cultural infrastructure	• May plan and develop facilities; planning and building approvals	• **State Government and service providers**	
f. Recreational / leisure infrastructure	• **May plan and develop facilities; planning and building approvals**	• **State Government and service providers**	
g. Health infrastructure	• May plan and develop facilities; planning and building approvals	• **State Government and service providers**	
h. Safety infrastructure (police, fire)	• Planning and building approvals	• **State Government and service providers**	

Activity	Local Government Responsibility	Others Responsibility	
Stage 7: Dwelling completion			*Timing: 3 years*
a. Dwellings construction complete		• **Developers**	
Stage 8: Community established			*Timing: ongoing*
a. Development Maturity			
b. Service delivery	• **Yes**		

Figure B1 Illustration of the intensity of council investment at different growth stages of a precinct, as described by councils through project workshop and interviews



As shown in Figure B1, local government is involved throughout the process of a development, with increasingly intense levels of investment as the community matures.

Appendix C

Council survey results

Twenty-one councils responded to an online survey conducted as part of this study. The results are summarised in this section to reflect the perspectives of the respondents.

Of the participating councils considered in this report, responses were collected from Cardinia, Hume, Melton and Mornington.

Out of the 21 respondents, eight considered themselves to be growth areas. These are:

- Cardinia
- Hume
- Melton
- Baw Baw
- Golden Plains
- Kingston
- Port Phillip
- Swan Hill

Figure C1 below displays the survey results indicating growth type between councils. From this, it can be seen that growth councils (Cardinia, Hume, Melton and Mornington) are experiencing more greenfield development.

Non-growth councils are experiencing more urban infill type development.

Across both growth types, detached and semi-detached dwellings are more common than apartments.

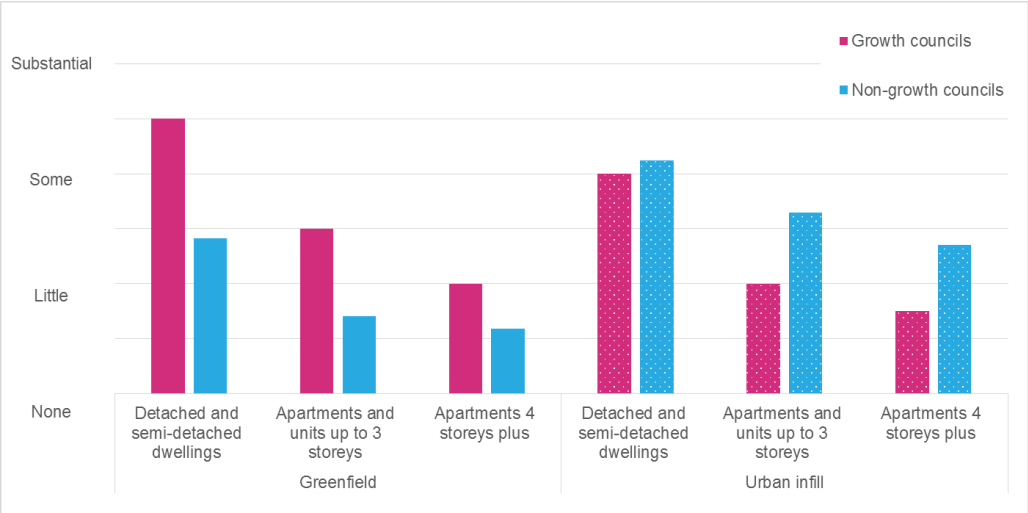


Figure C1 Survey results for growth type

Figure C2 displays the survey results relating to the type of issues councils are facing. Aside from grants not keeping pace with costs, and complexity due to out-of-sequence growth, all other issues were experienced nearly equally between growth and non-growth councils. In particular, this suggests that limited ability to increase user charges may not be specific to the demographic in the growth areas.

One key issue (not displayed in figure) experienced by rural councils was a lack of experienced staff and difficulty in attracting come professions to the area (noted by Kingston and Wellington).

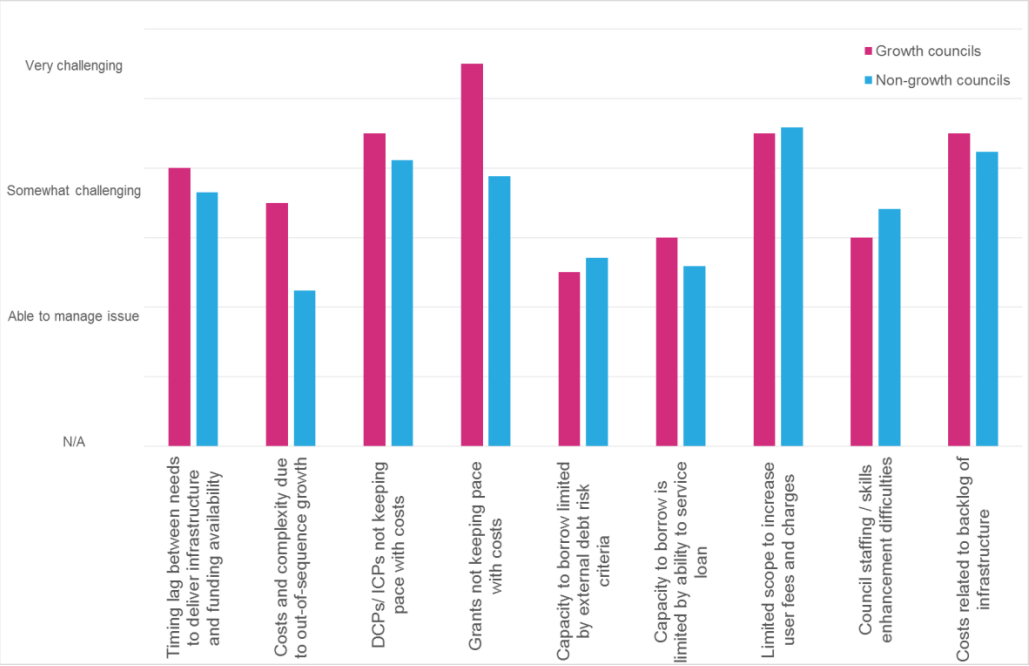


Figure C2 Survey results for issues facing Councils

Common themes as to how councils manage growth include:

- Business improvement – internal committee (Hume), organisational restructure (Baw Baw), more efficient communication with the community through online interaction and automation (Mornington).
- Joint venture with private sector (Melton) or other councils (Golden Plains).

In conclusion, growth and non-growth councils see themselves as facing similar challenges, except that growth councils are more concerned with development sequencing challenges and grants availability. Growing rural councils face the additional challenge of recruiting appropriately skilled staff.

Appendix D

DCP case studies

D1 Cardinia Road DCP (Cardinia)

This case study is a representation of the Cardinia Road DCP based on publically available information and information made available by Council.

Purpose: to finance – in part - the provision of infrastructure to the Cardinia Road Precinct in the Shire of Cardinia, through levying land developers at the time of sub-division and development.

Prepared by Urban Enterprise Pty Ltd for Cardinia Shire Council in 2008, with the resulting levy introduced into the planning scheme.

Method: This is one of the older style DCPs which relied on forecasts about the timing of development and the calculation of net present values of the cost of infrastructure based on a fixed depreciation rate. The DCP also split the area into cells with different development levies for each cell, depending on their share of the infrastructure. This complex method has several potential sources of error, especially in the timing of development and the assumed rate of appreciation. This DCP was prepared prior to the introduction of the Growth Area Infrastructure Charge (GAIC) and so includes some State-led infrastructure projects (VicRoads)

Infrastructure: 114 identified projects including roads, intersections, community centres, recreation facilities, open space, landscaping, public transport and trails.

Total project cost are $132 million (current costs) of which around $71 million in present value ($2007) was attributable to the development charge area. Of this present value cost, $6 million was for VicRoads projects. The present value of Council projects was $65 million ($2007) with $4 million, or 6%, being an unfunded Council liability.

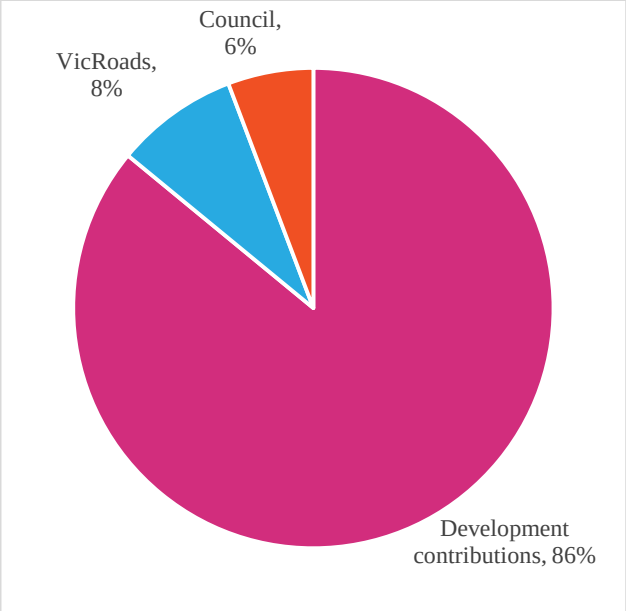


Figure D1 Anticipated source of funds

Development stage: The DCP projects are 44% complete (December 2016). To this stage, costs to Council have been $4.8 million. This is more than expected by the DCP, with Council records showing that Council still has $4.5 million left to spend. The cost over-run is due mainly to:

- An area of the Cardinia Road DCP (cell 4) was previously included in an earlier plan with incurred overall costs in access of the contributions received. This shortfall has had to be borne by council as the previous Plan did not have sufficient funds to transfer to the Cardinia Road DCP for the completion of the works included in the DCP.

Further to this, the value collected was at a lower value than what was calculated in the Cardinia Road DCP due to land values at that time. Notwithstanding the increase in values, this area was not charged again under the Cardinia Road DCP.

- Land costs which were higher than allowed for as land-owners found themselves in a strong negotiating position due to the increase in land values as the development progressed.
- Community Infrastructure Levy projects included in the DCP far outweigh what can be collected from the CIL amounts. Short fall of $7.8 million to be funded by Council.

Other issues (including discussions with Sharon Dalton and Jo Harris at Council)

Council has three DCPs currently operating, with one or two more likely in the near term. As with other Councils, accounting for the true costs for individual DCPs has been difficult because of the lack of integration with other Council systems and the difficulty in predicting costs.

So far, developers have been allowed to choose which projects from the DCP they undertake as contributions in kind. The developer-delivered work-in-kind projects are inspected by Engineering to be up to standard before credits are issued. The developers may be in a position to complete these works for less than the DCP costs.

Council now has a system in place to ensure that the value of the works in kind are known and Section 173 agreements are completed with developers in a planned manner. Where DCP works are essential for the delivery of a particular development a requirement for the delivery of these works are imposed on the developer through the planning process. Development out of sequence must deliver DCP infrastructure to ensure an appropriate standard of access is met.

D2 Cranbourne East DCP (Casey)

This case study is a representation of the Cranbourne East DCP based on publically available information and information made available by Council.

Purpose: to finance – in part - the provision of infrastructure to the Cranbourne East Precinct in the City of Casey, through levying land developers at the time of sub-division and development.

Prepared by the Growth Areas Authority with input from stakeholders, with the resulting levy introduced into the planning scheme.

Infrastructure: 40 identified projects including roads, intersections, community centres, recreation facilities, open space and the land required to accommodate them, as well as plan preparation.

Total project cost = $74,680,628 ($2010), comprising $25,485,000 in land purchase (34%) and $49,195,628 in construction costs (66%).

Costs attributable to the precinct and recovered through the DCP $64,876,140 – 87% of the total leaving the Council with an unfunded liability of $9,804,488 (in $2010)

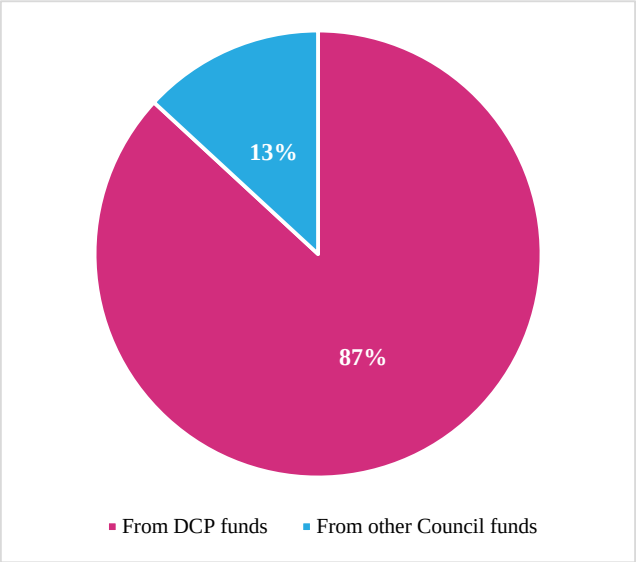


Figure D2 Expected source of DCP project funding (GAA, 2010)

Development stage: This precinct is more than half completed with several thousand houses; at least one of the planned activity centres, one of the schools, and part of the open space has been provided. By June 2015, over $15 million in project costs had been expended, $9 million has been works in kind and $2 million has been paid from Council sources other than DCP funds (rates or grants) -13% of the total. This seems to be on-track with the DCP.

In general (including discussions with Keri New at Council)

Accounting for individual DCPs has been difficult – in part because some outcomes are negotiated, information comes from different sources and the DCP projects do not fit within Council's normal accounting software. (All Councils seem to struggle with this – a responsive accounting package would seem to be in order.) However, the chart below provides a collective view of the funding for all DCP projects across the 11 precincts in Casey. (Council notes that this is not the full picture because not all DCP projects will have made their way into the capital works program if they are too far into the future.)

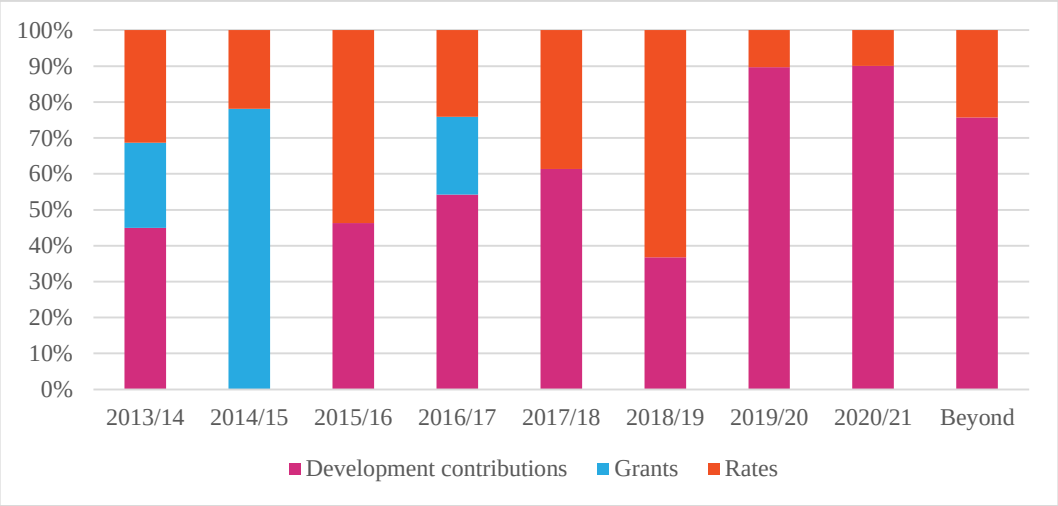


Figure D3 Funding split for DCP projects

Council has provided an estimate of the likely call on general rates each year arising from all its DCP projects, after taking into account development contributions and grants.

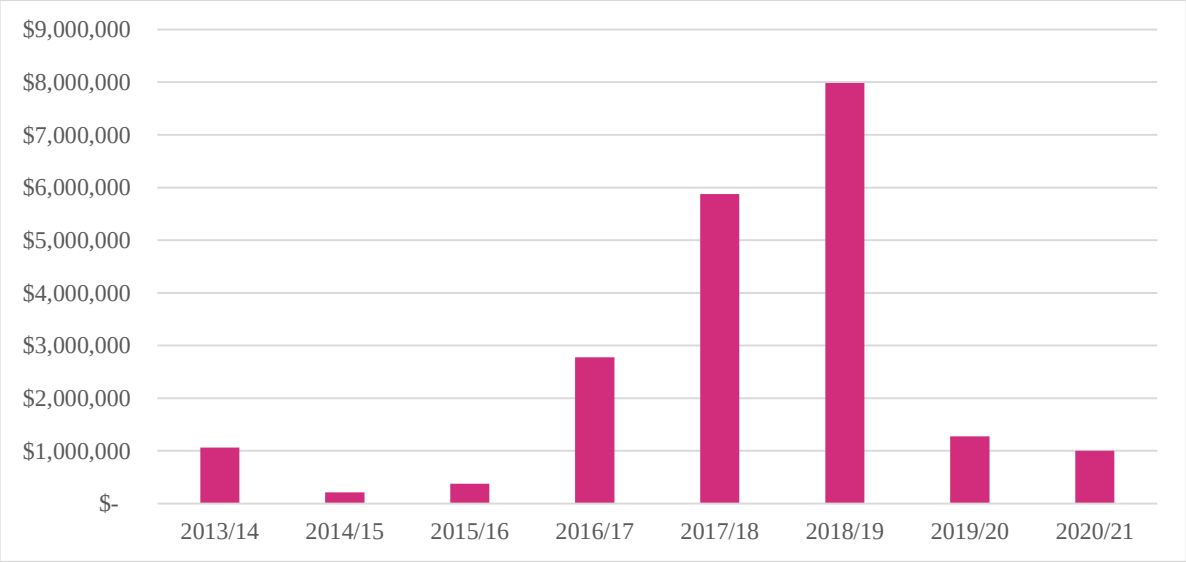


Figure D4 Expected rates contribution to Growth Area projects

For the next three years, Council could have a substantial and accelerating call on general rates to fund promised growth area infrastructure. This call on rates may be reduced through provision of grants which are not yet anticipated or through pushing back planned infrastructure provision. Otherwise, this could be a reason to justify higher than normal rate rises (although would there be a case for a decline in rates in years with a significant drop in capital requirements?).

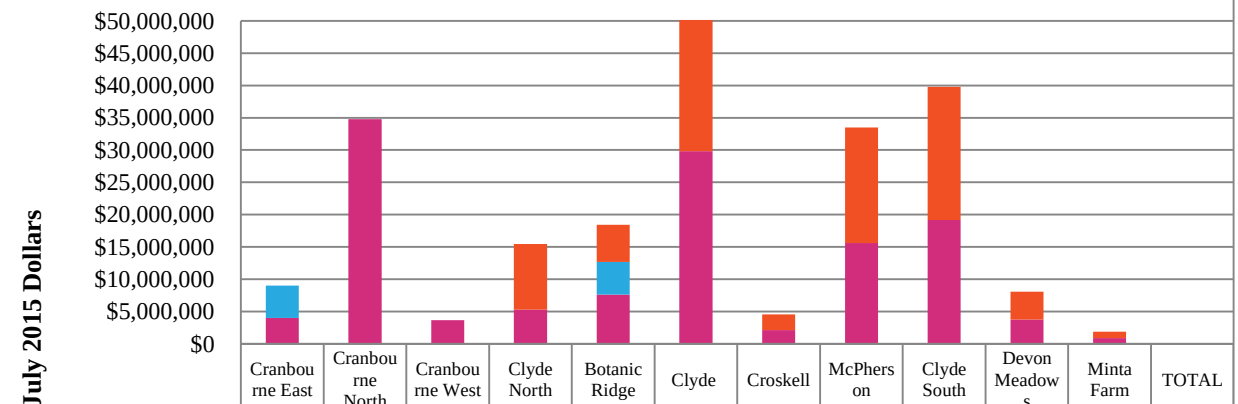
Council has undertaken some analysis of the costs of growth area projects which are not provided through the DCPs, which it says comes from several main sources:

- Unfunded liabilities, where not all of a project is attributable to the precinct being developed or where the community infrastructure cap prevents full cost

recovery. It is noted that the Community Infrastructure Levy has been recently increased, however this will not assist in areas where the levy has already been collected at the previous rate and is expected to pay for future community infrastructure. The new cap is $1,150 per dwelling, introduced in October 2016. The old cap was $900 per dwelling and had not been increased since 2004. The new rate has not kept pace with inflation (an effective rate increase of 2.1% per year compared with CPI inflation of 2.5% per year).

- "Casey standards" where DCP projects have not been adequately costed to deliver the expected standard of provision. These standards could reflect changes in legislation about the provision of community infrastructure since the DCP was developed. This has happened, for example, with the change in kindergarten contact hours and staffing ratios which have necessitated more space and costlier construction than anticipated. Costs have also been higher where the VPA, under pressure to keep the development contributions as low as possible, has specified a low standard of provision of infrastructure that Council deems would have adverse maintenance and running cost implications.
- Additional facilities that are required but never made it into the DCP – for example the provision of sporting facilities where only land purchase has been allowed for in the DCP.

The chart below shows the extent of these sources of unfunded capital requirements in each precinct (as estimated by Council).



	Cranbourne East	Cranbourne North	Cranbourne West	Clyde North	Botanic Ridge	Clyde	Croskell	McPherson	Clyde South	Devon Meadows	Minta Farm	TOTAL
TOTAL	$9,000,00	$34,790,0	$3,660,00	$15,430,0	$18,420,0	$62,090,0	$4,530,00	$33,500,0	$39,780,0	$8,060,00	$1,870,00	$232,890,
Casey Standard	$0	$0	$0	$10,160,0	$5,750,00	$32,260,0	$2,430,00	$17,890,0	$20,600,0	$4,310,00	$1,000,00	$96,340,0
Additional Facility Provision	$5,000,00	$0	$0	$0	$5,050,00	$0	$0	$0	$0	$0	$0	$10,050,0
DCP Unfunded Liability	$4,000,00	$34,790,0	$3,660,00	$5,270,00	$7,630,00	$29,820,0	$2,110,00	$15,610,0	$19,170,0	$3,760,00	$870,000	$126,500,

Figure D5 All sources of unfunded capital requirements in growth precincts

Cost indexation

Cost indexation based on CPI in the original DCPs was highly inadequate. For the later DCPs, indexation for construction works appears to be adequate so far. However, indexation of the value of land is not generally adequate. Land values are negotiated and the prices arrived at always appear to be over those allowed for.

Out of sequence development

Council has a priority list of infrastructure. Works in kind can only be provided for those works at the top of the priority list. If developers want to undertake out of sequence development they can do their works in kind but must still pay the contributions attributable to their development areas. They are then reimbursed for their works in kind later when those works become due. This ensures that Council has money to pay for the highest priority facilities as they fall due.

Infrastructure Contribution Plans

The new ICPs appear to be reasonably funded. However, Council will not know whether costs are being covered until later in the Plan period. It seems likely that final infrastructure elements of a Plan will not be adequately funded, and these will inevitably be Council required community and sporting infrastructure.

D3 Merrifield West DCP (Hume)

This case study is a representation of the Merrifield West DCP based on publically available information and information made available by Council.

Purpose: to finance – in part - the provision of infrastructure to the Merrifield West Precinct in the City of Hume, through levying land developers at the time of sub-division.

Prepared by the Growth Areas Authority with input from stakeholders, with the resulting levy introduced into the planning scheme.

Infrastructure: 23 identified projects including roads, intersections, community centres, recreation facilities and the land required to accommodate them.

Total project cost = $124,637,956 ($2011), comprising $67,144,400 in land purchase (54%) and $57,493,556 in construction costs (46%).

Proportion of cost attributable to the precinct – 85.4% (and this is typical of DCPs throughout Hume)

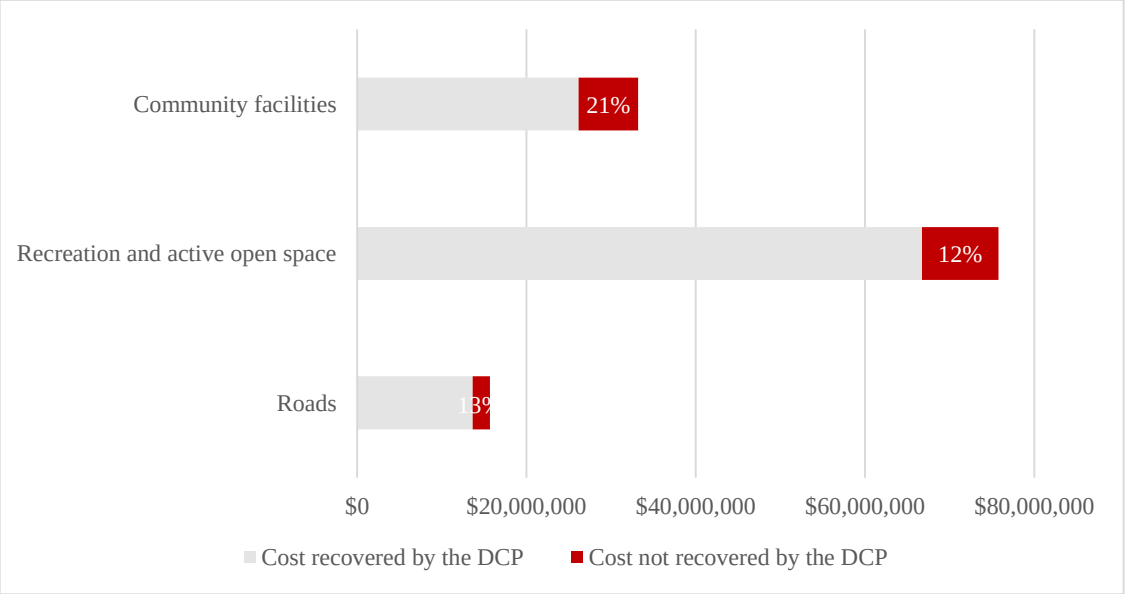


Figure D6 Costs recovered by the Merrifield DCP

Cost recouped through the development levy - $106,410,086 ($2011) after taking into account the cap on the levy applicable to community infrastructure.

Development stage: Several hundred houses constructed. Low level of development levy collected so far because the initial eligible infrastructure has been provided as in-kind works (and this is typical of DCPs in Hume). Council will soon reach a trigger point for the provision of community or recreational facilities. No cash flow account was seen for this DCP (but little money has changed hands yet).

Discussion with Daryl Whitfort at Council

In general, the operation of the DCPs appears to be satisfactory; that is, the money coming in more or less matches the cost items that have been identified. There have been few significant problems with initial valuations, indexation or escalating land costs in the DCPS operating in Hume. However, there are ways in which Council may have to spend money which is not covered by the DCP or rates income:

- Sequencing of development is not always efficient. For example, as at Merrifield West, multiple land-owners create several development fronts, generating demand that brings forward the need for infrastructure items for which Council has not yet received the contributions. Without the ability to pay for these costs by raising rates, Council may have to borrow money, with consequent interest charges which are not covered by the DCP. Council has some room to manage costs and negotiate with developers to reduce these inefficiencies but are not in full control of the process.
- The largest cost-burden on Council comes from the items that are not in the DCP or not fully covered by the DCP. In the Merrifield West example, the DCP provides for a portion of the funds to purchase land for a library and aquatic centre. These facilities are meant to serve beyond the boundaries of the precinct and therefore the precinct is only liable for a portion of the cost. The share of the cost – 33% in each case – appears to have been set by the Growth Areas Authority (now VPA). The documentation does not reveal how this share has been arrived at. And no surrounding precinct DCPs appear to be footing the bill for the remainder of the land cost. Most importantly, the DCP does not cover the cost of constructing the new library or aquatic centre. These major district-scale items will be provided towards the end of the DCP term when the area is largely developed. At this stage, Council will need to be able to use rates to help fund the purchase of the land. Council will likely then wait until it can get a grant from State or Federal Government in order to help pay for the facility construction costs. Again though, it will also need to draw on its own resources. Unless it has savings Council will need to fund the construction of these facilities through rate rises or borrowings.

The new ICPs, with flat rate structures, do not appear to be as well funded as the existing DCPs in Council's opinion. Whilst the flat rate charge is simpler to calculate, any underfunding of road and bridge infrastructure will be made up from funds allocated to community infrastructure (the flow of funds in the opposite direction is disallowed[51]). This will leave Councils responsible for more of any shortfall in DCP infrastructure funding.

Most municipalities with growth areas also have long established, often poorer, communities with facilities that are now ageing and with limited usability. There is an equity issue in providing better facilities for these communities as well as providing new facilities for the growth areas. This can lead to pressure to raise rates.

[51] As per the diagram on page 42 of DWELP, 2016, *Infrastructure Contributions Plan Guidelines*, Available at https://www.planning.vic.gov.au/__data/assets/pdf_file/0020/9560/Infrastructure-Contributions-Plan-Guidelines.pdf

Appendix E

Facility triggers

Table E1 Facility triggers in growth areas

Item	Trigger				
	VPA standard[52]	**Wyndham**[53]	**Casey**[54]	**Hume**	**Melton**
Schools					
Government primary school	10,000 people	3,000 dwellings	-	-	-
Government secondary college	30,000 people	9,000 dwellings	-	-	-
Non-Government primary school	-	5,000 dwellings	-	-	-
Non-Government secondary college	-	15,000 dwellings	-	-	-
Catholic primary school	30,000 people	-	-	-	18,000 residents
Catholic secondary college	60,000 people	-	-	-	58,000 residents
Other independent schools	60,000 people	-	-	-	-
Government specialist school	-	60,000 dwellings	-	-	-
Council social and community services					
Long day child care centre	10,000 people	-	-	-	-
Social housing	10,000 people	-	-	-	-
Community centre/ early years' facility/ neighbourhood house (Level 1)	10,000 people	7,000 dwellings	10,000 residents	1,500 households	-
Community centre/ early years' facility/ neighbourhood house (Level 2)	30,000 people	7,000 dwellings	20,000 residents	-	-
Low order youth facilities	30,000 people	-	-	-	-
Occasional child care	30,000 people	-	-	-	-
Residential aged care	30,000 people	-	-	15,000 households	-

[52] Australian Social & Recreation Research, 2008, 'Planning for Community Infrastructure in Growth Areas'.
[53] SGS Economic & Planning, 2016, 'Residential Growth Management Strategy', Wyndham City Council.
[54] 'Facilities triggers' spreadsheet, internal communication with Council

Item	Trigger				
	VPA standard[52]	Wyndham[53]	Casey[54]	Hume	Melton
Maternal & child health	30,000 people	6,000 dwellings	-	-	-
Libraries	60,000 people	21,000 dwellings	60,000 residents	15,000 households	-
Community arts centre	60,000 people	-	-	-	-
High order dedicated youth facilities	60,000 people	-	-	-	-
Community centre (Lv 3)	60,000 people	21,000 dwellings	45,000 residents	-	-
Community based health precinct	60,000 people	-	-	-	-
Early childhood intervention services	60,000 people	-	-	-	-
Delivered meals facility	60,000 people	-	-	-	-
Garbage truck	-	-	-	5,000 households	-
CFA station	-	-	-	-	8,500 residents
Community arts centre	-	-	250,000 residents	-	-
Recreation and sporting facilities					
Active open space (Lv 1)	10,000 people	500 people	-	1,500 residents	-
Passive open space (Lv 1)	10,000 people	2,000 people	-	-	-
Indoor recreation centre (Lv 2)	30,000 people	22,000 people	-	15,000 residents	-
Low order tennis facilities	30,000 people	3,000 people	2,300 residents	-	1,500 residents
Aquatic leisure centre	60,000 people	200,000 people	-	-	-
Higher order active open space reserve	60,000 people	-	-	-	-
Indoor recreation space (Lv 3)	60,000 people	50,000 people	-	-	-
High order tennis facilities	60,000 people	-	-	-	-
Lawn bowls facility	60,000 people	-	15,000 residents	-	-
Adventure playgrounds (Lv 3)	60,000 people	-	-	-	-

Item	Trigger				
	VPA standard[52]	**Wyndham**[53]	**Casey**[54]	**Hume**	**Melton**
AFL field	-	4,000 people	4250 residents	-	-
Cricket oval	-	4,000 people	3,000 residents	-	-
Soccer field	-	7,000 people	4,500 residents	-	-
Netball court	-	7,000 people	5,000 residents	-	7,000 residents

Appendix F

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