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24 February 2022

Mr J. Watson  
Chair  
Victorian Local Government Grants Commission  
**Sent via email: [nada.bagaric@ecodev.vic.gov.au](mailto:nada.bagaric@ecodev.vic.gov.au)**

Dear Mr Watson,

## **MITCHELL SHIRE COUNCIL SUBMISSION REGARDING THE FINANCIAL ASSISTANCE GRANTS METHODOLOGY – CONSIDERING FUTURE GROWTH**

Please find below a submission from Mitchell Shire Council regarding the consideration of future growth within the financial assistance grants cost adjustors.

Mitchell Shire Council is Victoria's fastest growing municipality. Our population is projected to more than triple over the next twenty years.

This rate of rapid growth, however, is not unique to Mitchell. Many municipalities are projected to experience accelerated growth over the next few decades. This future growth imposes a significant financial burden on local government to plan and deliver for communities which are not yet in place.

In response to this financial burden, Mitchell Shire Council are recommending that projections of future growth are included in the financial assistance grants methodology through the cost adjustors.

We are proposing that this could be done through one of two options, either:

- **Approach A:** *Modify the application of the 'population growth' cost adjustor to consider future growth, rather than growth to date in order to better support Councils to plan and deliver for future communities; OR*
- **Approach B:** *Retain the current 'population growth' cost adjustor and include a new 'projected population growth' cost adjustor to account for both past and projected growth*

Either of these approaches would ensure that future growth is considered through the methodology whilst utilising the same three-year interval in line with the current approach.

We hope that our recommendations regarding the cost adjustors are carefully considered. If you require more information, or would like to discuss the recommendations presented, please do not hesitate to get in contact. To make a time please contact Juliana Hummerston on (03) 5734 6201.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brett Luxford', with a stylized flourish at the end.

**BRETT LUXFORD**  
**CHIEF EXECUTIVE OFFICER**

cc Colin Morrison

## Background

Mitchell Shire Council is Victoria's fastest growing municipality.<sup>1</sup> The municipality is projected to grow by 233% over the next 19 years from a current population of 51,273 in 2022 to 170,830 by 2041.<sup>2</sup> Even the most conservative estimates of Mitchell Shire's growth identify the municipality growing 4.5%p.a. by 2036;<sup>3</sup> the highest growth rate for any municipality and substantially higher than the State's estimated rate of 2.5%.

The projected rate of growth imposes significant financial obligations upon Mitchell Shire Council. Sections 9(2) and 89(2) of the *Local Government Act 2020* (Vic) clearly impose an obligation on Councils to plan for future communities. Section 89(2)(c) goes further, stating that 'strategic planning must take into account the resources needed for effective implementation'.<sup>4</sup>

The financial impact of future growth stretches across a range of different service functions in Council. This includes, but is not limited to, strategic planning, statutory planning, community infrastructure planning, engineering, library services, maternal and child health and early learning services, community and other infrastructure delivery, and the construction and up-keep of roads and other municipal infrastructure. All of these functions of Council are impacted by a financial burden due to future growth prior to the relevant populations being in place.

Considering these challenges, Mitchell Shire Council is recommending that the Victorian Local Government Grants Commission adjusts their cost adjustor formula and methodology to take account of future, not just past, growth. The current methodology lacks any consideration for future growth and thus significantly disadvantages Councils and municipalities which are subject to the financial obligations as a result of future projected growth.

## Approaches: Population Growth Cost Adjustor Forward Looking

**Approach A:** *Modify the application of the 'population growth' cost adjustor to consider future growth, rather than growth to date in order to better support Councils to plan and deliver for future communities.*

OR

**Approach B:** *Retain the current 'population growth' cost adjustor and include a new 'projected population growth' cost adjustor to account for both past and projected growth.*

<sup>1</sup> *Victoria in Future* (2019) DELWP.

<sup>2</sup> forecast.id, Mitchell Shire population forecast.

<sup>3</sup> *Victoria in Future* (2019) DELWP.

<sup>4</sup> *Local Government Act 2020* (Vic), s89(2)(c).

### **Approach A**

The first potential approach to accounting for future growth would be to modify the 'population growth' cost adjuster to measure forecast growth rates rather than historical growth rates.

The definition for the population growth cost adjuster is to recognise 'that areas of higher population growth require relatively greater council effort in providing some services.'<sup>5</sup> This definition imposes no clear time period; it could apply to historical growth or projected growth.

The 2020-21 General Purpose Grants Cost Adjustor – Raw Data for the population growth cost adjuster demonstrates that the current formula behind the cost adjuster involves determining a growth rate percentage from the June 2016 ERP to the June 2019 ERP.<sup>6</sup> This is, therefore defining population growth as a backwards-facing measure.

This recommendation proposes that the definition for the population growth cost adjuster remains the same, however that the application shifts from historical ERP data to forward looking population projections. A viable, reputable data source for these projections could be the Victorian Government's *Victoria in Future* projections.<sup>7</sup> A similar timeframe could be applied, with the example 2020-21 report instead having used the 2020 – 2023 VIF projections. This would account for an equivalent three-year interval as the current methodology.

This shift would account for the cost obligations imposed upon growing Councils due to planning and delivering for future growth.

### **Approach B**

An alternative approach to the above would be to retain the current population growth cost adjuster based upon historical ERP and to include a new cost adjuster for projected population growth. The proposed new cost adjuster could, similar to above, be based upon the projected population growth from source such as the Victorian Government's *Victoria in Future* projections.

The inherent advantage of this approach is it would recognise both the growth that has occurred over recent previous years along with projected future growth, noting that municipalities experiencing growth may be in different phases of development.

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<sup>5</sup> VLGGC Annual Allocation Report September 2020 (2020), 25.

<sup>6</sup> VLGGC Annual Allocation Report September 2020 (2020), 52 and 57.

<sup>7</sup> Note: Mitchell Shire Council uses forecast.id for its population projections.

## Supporting Data

Please note, due to public availability of the *Victoria in Future* projections, the data comparison made here uses five-year intervals rather than the three-year interval current used in the cost adjustor. It is understood that *Victoria in Future* data is, however, able to provide different time intervals when requested. It would be recommended that any new cost adjustor could account for an equivalent three-year interval to match the measured of historical growth currently utilised.

Mitchell Shire ERP	2014 ERP	2019 ERP	Growth
	39,084	46,087	17.92%
Mitchell Shire VIF	2021 Projection	2026 Projection	Growth
	50,071	62,423	24.67%

Table 1: Comparison example for Mitchell Shire between past and future growth projections

The table above highlights the different growth rates that are produced for Mitchell Shire between a backwards looking ERP formula and a forward-looking formula based upon a source such as *Victoria in Future*. There is a significant discrepancy between the two figures, highlighting that a cost adjustor formula that purely uses ERP to estimate growth can substantially mis-represent future or projected growth. For Mitchell Shire, as exemplified above, this error underestimates the impact of growth, however for other municipalities it is possible that ERP over-estimates the impact of growth.

Future growth has a significant financial impact upon Councils across a range of different service functions. The table below explores the relevant growth rate in paths and kerb lengths in Mitchell Shire across the same 2014 – 2019 period. The growth in paths and kerb length highlights two key infrastructure types in which uptake grew at a rate significantly higher than the ERP growth rate, and comparatively in line with future growth rate projections. These are just two examples of many where infrastructure delivery occurs prior to the relevant populations being in place.

Paths	Length 2014	Length 2019	Growth	ERP Growth	Difference
	235.775	307.089	30.25%	17.92%	+12.33%
Kerbs	Length 2014	Length 2019	Growth	ERP Growth	Difference
	374.574	483.999	29.21%	17.92%	+11.29%

Table 2: Mitchell Shire paths and kerb length growth rate comparison

Whilst Councils obviously need to respond to the demands of the 17.92% growth that occurred between 2014 and 2019, the 24.67% growth projected from 2021 to 2026 also imposes a significant financial obligation upon a range of different Council services and should be accounted for within the cost adjustor methodology.

## **Conclusions**

Adopting either approach A or B above would more accurately enable the Grants Commission to support Councils that are dealing with planning and delivering for rapidly growing communities.

We hope that our recommendations regarding the cost adjustors are carefully considered. If you require more information, or would like to discuss the recommendations presented please do not hesitate to get in contact. To make a time please contact Juliana Hummerston on (03) 5734 6201.