ENVIRONMENT AND PLANNING COMMITTEE:
Hearing 12 August 2015 – Torquay

INQUIRY INTO RATE CAPPING

That pursuant to Sessional Order 6 this House requires: the Environment and Planning Committee as part of its oversight of Local Government Victoria, to inquire into and report every six months on the outcome of the State Government policy of local government rate capping on councils’ viability, service impacts on local communities and impacts on the provision of local infrastructure.

Colac Otway appreciates the opportunity to present to you on this inquiry into Rate Capping.

Colac Otway like many other Victorian councils has significant concerns regarding the impacts of rate capping on the municipality.

The Shire at a Glance

- Area: 3,427 sq kilometres.
- Length of Local Roads: 1,632 kilometres.
- 134 bridges and culverts
- Coastline: 95 kilometres.
- Forest and National Park: 110,000 hectares.
- Estimated population: 20,973
- Population growth rate: 1.2%

It is important that Local Government in Victoria continues to have the capacity to raise the appropriate level of rates to levy. The level of rates that Colac Otway charges is based on the services that Council delivers and the funding required to maintain the community's assets to the level required.

It is also important that not only financial considerations are taken into account when Rate Capping is being proposed. Councils play a critical role in community development and delivery of social policy outcomes for the community which cannot be ignored.

Colac Otway Shire currently delivers approximately 90 services, many of which impact various sectors in the community. Rate capping will mean that smaller Councils like Colac Otway will need to further review services that are delivered, placing further burdens on the community.
The impacts of rate capping will have a significant impact on Colac Otway Shires sustainability and directly affect our community.

It is also important to note that a number of councils in rural areas have limited other income streams. It has been well documented the financial pressures that smaller sized councils (in terms of population) are under in maintaining financial sustainability in the current environment. Further pressures on rating which is Council’s main revenue stream will place added pressure on Council’s already tight budgets and financial situation.

**Ageing Population**

Colac Otway Shire has a growing ageing population, which presents challenges to future planning for example:

- community care services
- arts, culture and open space facilities and events
- infrastructure to ensure accessibility.

**Significant Levels of Disadvantage.**

Colac Otway Shire has pockets of high socio-economic disadvantage characterised by lower incomes, education and skill levels, alongside higher levels of unskilled occupations, family and health issues.

**Impacts**

Rate capping will have a significant impact on Council policies and procedures. The implementation of rate capping for Victorian Councils has the potential to fundamentally change the way in which local government approaches service delivery for our communities. Through a significantly reduced revenue stream Council will need to reassess all service level policies and priorities, with an aim to reduce expenditure where possible.

**Colac Otway’s Reliance on Rates and Charges**

The figures for a 11 year period indicate Council’s reliance on rates and charges (waste) has continued to increase over the period: from 39.4% in 2004-05 to 54.2% in 2014-15 (forecast).

With a reduction in other forms of revenue Council has relied more and more on rate revenue.

Rate capping will place significant pressures on Council’s main source of revenue.
STRATEGIC RESOURCE PLAN (SRP) 2014-2015 to 2017-18

Colac Otway’s Strategic Resource Plan 2014-15 to 2017-18

The Strategic Resource Plan (SRP) 2014-15 to 2017-18 included rate rises of 5.1% for the four year period. The plan includes the following objectives:

- Maintain the existing range and level of service provision and develop the capacity to grow and add new services;
- Maintain a strong cash position, ensuring Council remains financially sustainable in the long-term;
- Achieve underlying surpluses from operations;
- Provide for rate increases that establish a funding level for a sustainability index of 100 percent, including increasing funding for capital works (asset renewal, expansion, upgrade) and asset maintenance.

With rate capping the forecast revenue over the 4 year period will decrease significantly.

The analysis shows that Council will lose a significant amount of cash over a 10 year period, moving from a cash balance of $7.8 million at the end of 2014/15 to a negative cash balance by the end of 2024/25.

EXTERNAL IMPACTS ON COUNCIL FUNCTIONS

In many instances State Funding has not kept pace with what is required to deliver improved services.

For example Library Service funding has continued to reduce as a % of total income. In 2000/01 the % was 40.7%. In 2005/06 the % was 34.4%.

This is now forecast to be 26% in 2015/16. This is a significant reduction and has placed significant pressures on Local Government to continue to fund what is seen as a vital service not only for Local Government but for all Victorians.

Other Services

Other significant services where Council subsidises service delivery for the State Government include:

- Maternal and child health
- Home and Community Care including Meals on Wheels
- School Crossings
- Surf Lifesaving Clubs
- State Emergency Services

In each of the services the level of funding has not kept pace with the increasing demands on the service. In some cases the services provided by Council are not a responsibility of Local Government.

It is important to note that these services are delivered in partnership with the State Government with the main beneficiary being the community. With the pressure of rate
capping it is inevitable that Councils will need to look at the way it delivers the services. This may mean a reduction in service and/or increased fees and charges.

This may then have a flow on effect on the community and possible negative social outcomes.

**Fees and Charges**

While Rates & Charges has continued to increase steadily over the period, the fees and charges % has gradually decreased from 13.1% in 2004-05 to a forecast % of 8.6% in 2014-15.

These figures highlight further the significant effects that Rate Capping on Council's main income stream.

Council is limited on the options to increase fees and charge, but will need to further review the level of them in light of rate capping and service reviews that will need to be undertaken.

**Summary**

The impacts of additional costs and reporting being imposed on councils puts upward pressure on local rates.

Council will need to review the current arrangements and in some cases consider either reducing the current level of service or hand the responsibilities back to the State Government.
ASSET RENEWAL GAP

In a report on Asset Management on 19 February 2014 the Auditor General reported to the Parliament:

"Victorian councils manage around $73 billion of infrastructure assets. Council spending on renewing or replacing existing assets is not keeping pace with their rate of deterioration, resulting in cumulative renewal gaps that grow each year".

Colac Otway Shire Council recognises the challenge known as the Asset Renewal Gap. The gap exists due to the inability to fund infrastructure asset replacement when asset condition degrades and the associated services are unable to be delivered. In order to address this, Council has had an ongoing commitment to recognising asset renewal expenditure as ‘non-discretionary’ and providing responsible levels of funding for the renewal of community assets over a number of years.

The majority of Council’s renewal funding is drawn from Council’s own source funds which are predominantly raised through rates.

The figures indicate that, based on the assumed renewal expenditure profile, Council faces a renewal gap of approximately $980K in 2015/16. The gap then trends upwards to a maximum of approximately $2.44M in 2019/20.

The implementation of rate capping will erode Council’s ability to adequately fund the maintenance, replacement, and rehabilitation of assets which the community relies on for basic services. This will lead to significant disrepair in assets increasing the risk of failure and declining customer satisfaction.

It will mean that Council will need to look at reducing the levels of service and to decommission assets which are deemed to be aligned with discretionary services.
VICTORIAN AUDITOR GENERAL

In February 2015 the Victorian Auditor-General provided a report to the State Government “Local Government: Results of the 2013/2014 Audits”.

On page 27 of the report:

Background

"To be financially sustainable, entities need to be able to meet current and future expenditure as it falls due and to absorb foreseeable changes and risks without significantly changing their revenue and expenditure policies."

Financial Sustainability Risk Assessment Results 2013/2014

The figures in the report indicate that Colac Otway is categorized as low risk in each of the indicators.

It should be noted that in 2006-07 which is less than 10 years ago the Victorian Auditor-General report to the State Government “Local Government: Results of the 2006-07 Audits” indicated the following:

Within the large shire group, only Colac Otway exhibited immediate liquidity concerns.

Colac Otway has reported mixed results over the past 5 financial years making it difficult to identify a pattern of performance. Colac Otway has, on average over 5 years, underspent on asset renewal, as well as reporting an average negative underlying result for the same period.

Colac Otway has been rated as high risk both because of the combination of its relatively high operating deficits and its underspending on infrastructure renewals over the past 5 years, and because its forecasts for the next 3 years for these items remain negative.

Since that time Council has made a number of strong financial decisions. As a result Colac Otway is now categorised as low risk in each of the indicators.

It is critical that the Colac Otway remains as a low risk Council.

Therefore it is critical that if Rate Capping is introduced that there is a strong process in place to monitor the impacts of rate capping on our community with respect to council’s viability, service impacts on local communities and impacts on the provision of local infrastructure.