

Towong Shire Council Submission

Inquiry into sustainability of rural and regional councils

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For further information please contact:

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About Towong Shire

Towong Shire is located in far north-eastern Victoria and possesses some of Australia's most pristine environment. Wilderness areas, lakes, rivers and streams create diverse landscapes that are enjoyed by around 6,000 residents and many more visitors across an area of 6,635 square kilometres. The economy of the region revolves around a rich agricultural sector, tourism and timber production and processing. Approximately two-thirds of businesses located in the Shire are in the agriculture and forestry industries.



Key Statistics for Towong Shire:

- Area: 6,635 sq km
- Population: 5,958 (2011 Census)
- Agricultural base: Beef grazing, Dairy, Sheep, Forestry
- 21 towns and villages: 2,336 households
- Median age: 47 (Vic and Aust: 37) 30% of population over 60
- Approx 56 births pa
- Weekly income: 34.5% of households less than \$600
- Non resident ratepayers 20.8%
- Local Road Network: 947km Bridges and major culverts: 167

2016/17 Budget:

- Total Income: \$16.974m
- Rates and Charges: \$7.718m (a 1% increase to general rate income yields \$55,000)
- Grants Commission: \$3.681m (General Purpose \$2.275m, Roads \$1.406m)

- Total Expenditure: \$14.002m
- Employee Costs: \$5.966m
- Capital Works: \$9.788m

Staffing:

Actual 2015/16 – 63.8 full time equivalent staff (FTE) compared to a budget of 68.3 FTE.

Local government funding and budgetary pressures and the impact of rate capping policies

Like other small Councils across rural Victoria, Towong Shire's large geographic area and small population presents a significant challenge – to adequately fund the maintenance and renewal of community assets and deliver responsive services that meet the needs of the community. A declining population, vast distances between communities and an economy that largely revolves around climatic conditions (particularly agriculture, forestry and tourism) are further factors which have an impact on our financial capacity.

Addressing financial sustainability

While our organisation has long recognised the risks to our long-term sustainability, in 2009 Council received the results of the 'Whelan Report' which presented a very low sustainability rating for our organisation. In response we developed a robust long-term financial plan that gave us a clear picture of our financial future. In the medium term, Council is aiming towards a 'break-even' underlying net result (ie. this means our operating expenditure equals operating income).

We introduced a systematic and aggressive cost reduction program and incorporated these savings into the long-term financial plan. In early 2014, on the basis of:

- maintaining existing levels of service and the current approach to asset renewal
- continuing to implement our cost reduction program
- adopting annual rates increases of between 4% and 6%, and
- an assumption that the Financial Assistance Grants would continue to increase at a level of 3% per annum,

our organisation could look forward to a 'break-even' financial result in 2017/18.

Original cost reduction program included:
Water supply and usage (savings of \$20,000 pa)
Motor vehicle policy changes (savings of \$130,000 pa)
Banking services (savings of \$16,000 pa)
In-house garbage collection services (savings of \$70,000 pa)
Organisational structure changes (savings of \$250,000 pa)
Shared services for property and rates (reduced cost of service per property by 15%)
Rationalisation of overheads including printing, subscriptions and advertising

Financial Assistance Grants indexation freeze

The Federal Government's freeze on the indexation of Financial Assistance Grants to local government significantly impacted Council's already lean financial situation. This decision has resulted in a \$658,000 decrease to Council's projected income over the 2014/15, 2015/16 and 2016/17 financial years. To put this into perspective, a 1% increase to Council's rates and municipal charge income generates an additional \$63,000.

The freeze compounds the issue of road funding allocation for councils. The funding is allocated to Councils based on their proportionate share of the State's local roads. Whilst the local road network across the State is growing, our Shire's road network remains static. This has resulted in less funds for our Council to maintain the same network of roads.

To partially offset the loss of income from the funding freeze Council introduced the following measures:

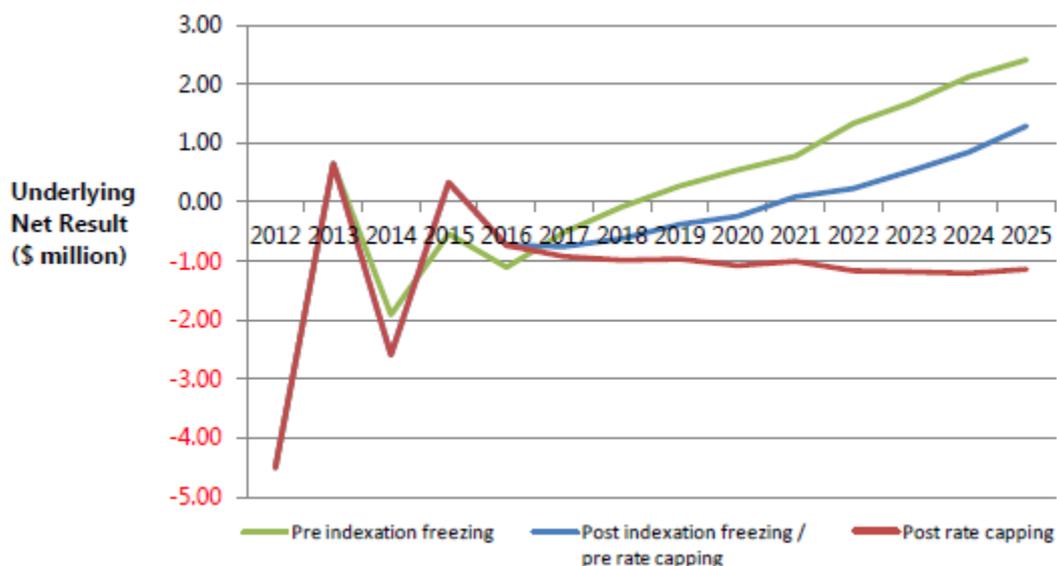
- reduced the length of the summer swimming pool season (savings of \$6,000 pa)
- reduced its casual roads maintenance workforce (savings of \$75,000 pa)
- ceased mobile library services (savings of \$50,000 pa)
- ceased the funded position for the Towong Alliance partnership (savings of \$23,000 pa), and
- reduced the opening hours of the Corryong Office/Library (savings of \$3,000 pa).

Introduction of Fair Go Rates Policy

Adding further strain to Council’s long-term financial outlook is the introduction of the Victorian Government’s Fair Go Rates System from 1 July 2016. Whilst Council supports the principles underpinning the Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers, Council recognises that with no change to current funding arrangements, the new system places added strain on Council’s long-term financial outlook.

Unlike larger councils who can generate income through parking fines, development contributions and levies, councils like ours rely on income from rates and grants to deliver core services. Based on estimated rate caps, Council is unable to fund services and maintain and renew infrastructure at 2016 levels, and return to a break even underlying net result. The following chart details the impact that the indexation freeze and the rate cap have on Council’s financial position, without impacting on services or infrastructure. As displayed by the red line, Council would operate with a growing underlying deficit over the long term. Financial modelling indicated that Council would exhaust all cash reserves by 2019.

Council’s Underlying Net Result (extracted from Long Term Financial Plan)



Higher rate application

In preparing a draft budget for 2016/17, Council’s long term financial modelling was updated to establish the rate increase that would be required to ensure that Council could sustainably deliver services and maintain and renew infrastructure at current levels into the future. The modelling revealed that a rate increase of 6.34% was required to be financially sustainable in accordance with Council’s Long Term Financial Plan and the Victorian Auditor General’s financial sustainability indicators. A rate increase of this magnitude would be required each year for the next ten years.

As the rate increase required for Council to be financially sustainable was greater than the 2.5% rate cap announced by the Minister, an application was made to the Essential Services Commission (ESC) for a higher rate cap of 6.34%.

The ESC conducted a comprehensive review of Council financial data and analysis. On 31 May 2016, the ESC announced that Council's application for a higher rate cap (6.34%) was approved for the 2016/17 financial year. In the accompanying report, the ESC stated "that the higher cap is consistent with Towong's well developed long-term financial plan to deliver sustainable outcomes in services and critical infrastructure in the long-term interests of its community. We find Towong's application and long-term financial plan to be consistent with the requirements of the Fair Go Rates System."

Adopted budget 2016/17

As stated previously Council supports the principles underpinning the Victorian Government's Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers. In supporting of this, the final Budget 2016/17 that was adopted by Council contained a rate increase of 3.5% (and not 6.34% as had been approved). Reductions for a number for services were required to accommodate this lower rate increase:

- a) Cease to match the Victorian Government contribution to the three local State Emergency Services units from July 2016 (\$32,340)
- b) Youth events budget reduced by \$9,000
- c) Seniors event budget reduced by \$9,000
- d) Funding to the Eskdale pool reduced by \$1,000
- e) Tallangatta and Corryong pool budget reduced by \$10,000
- f) Membership of the Murray Darling Association ceased (saving \$1,500)
- g) Participation in the whole-of-government community satisfaction survey ceased (saving \$9,000)
- h) Local Government tertiary scholarship ceased (saving \$21,000)
- i) Contribution to Murray Arts reduced by \$2,000
- j) Budget available for annual salary and wage increases capped at 1% or CPI, whichever is the lesser (saving \$87,000)
- k) Staff training budget reduced by \$9,000
- l) Membership of Timber Towns for 2016/2017 ceased and review for 2017/2018 (saving \$2,500).

In addition to the above changes for 2016/17, Council requested a review of a number of areas of operation:

- swimming pools - consider alternative operating models, including the possibility of a community run model
- maternal and child health services- consider opportunities for service delivery efficiencies or for better targeting of services
- Corryong and Tallangatta transfer station operations - consider alternative operating hours / models.

Whilst the draft Budget had proposed to cease the contributions to the three local State Emergency Services units from July 2016, as a result of community feedback, Council extended the funding until October to enable the Victorian State Emergency Service to establish alternative funding arrangements (saving \$24,255 instead of \$32,340).

Ongoing financial sustainability

Council is balancing the capacity of ratepayers to pay increased rates and ensuring that Council is able to provide services and maintain infrastructure in the longer term. The financial modelling indicates

that Council requires additional revenue to fund future infrastructure and service delivery needs. We support the Fair Go Rates System and believe that ratepayers should not be burdened with increases to the cost of living, particularly where the responsibility lies with State and Commonwealth Governments. We believe that the additional revenue should come from other levels of government rather than Towong Shire ratepayers. Alternatively, it may be appropriate for some services to be fully funded or provided by the State Government. To progress this Council formally requested a meeting with the Premier to discuss alternative funding options for Towong Shire.

The request to meet the Premier was not accepted, so instead the Towong Shire Mayor and CEO had a meeting with the Treasurer which took place in August 2016. The Treasurer was presented with a snapshot of Council's financial sustainability challenges, particularly external environmental factors affecting:

- Revenue
 - Indexation freeze on Financial Assistance Grants
 - Imposition of the Fair Go Rates Policy
 - Cessation of Country Roads and Bridges program
- Expenditure
 - Costs imposed on Councils
 - Compliance responsibilities imposed on Councils
 - Significant infrastructure assets managed by rural councils
 - Delivering services over vast geographic areas
 - Contributions to services and infrastructure to facilitate basic service levels for the community (eg contribution to mobile phone towers, libraries, maternal and child health facilities, kindergartens)

As a result of this meeting a report detailing a range of administrative and service costs borne by Council was submitted to the Treasurer. These costs included

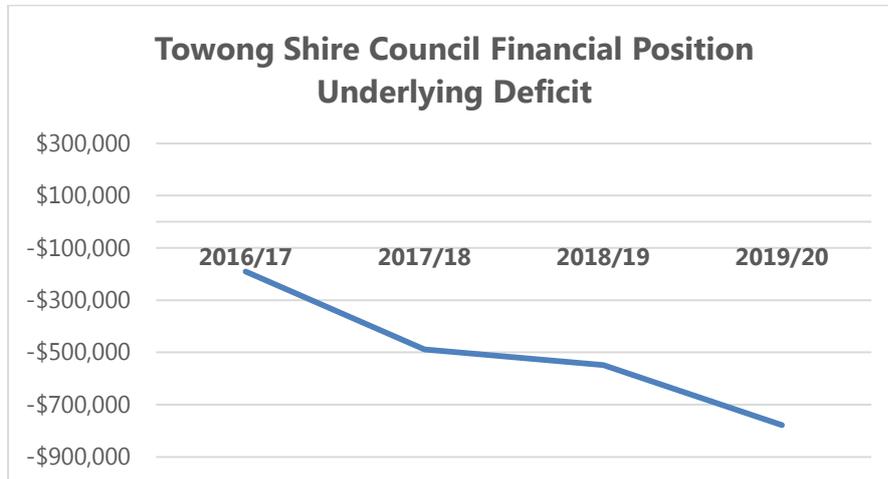
- Community Satisfaction Survey
- Election cost
- Electoral Representation Review
- External Audit
- Maternal and Child Health service
- Kindergartens
- Immunisation
- School crossing supervisors
- Library
- Planning
- Victorian State Emergency Service
- Fire Plug Maintenance
- General Revaluations

The report is attached at Appendix A for your information.

Reduced cash reserves / underlying result

In preparing the final Budget and Strategic Resource Plan for 2016/17, Council has adopted a rate increase of 3.5% for 2016/17 and forecast a rate increase of 6.34% for each of the following three years to be financially sustainable and to have sufficient cash reserves to meet future service delivery and asset renewal needs.

Based on a rate cap of 2.5%, Towong’s financial modelling demonstrates that Council would experience increasing underlying deficits over coming years, as displayed in the following chart. Underlying deficits will erode Council’s cash reserves and impact on Council’s ability to fund Council services and recommended infrastructure renewal in the medium term, with Council’s cash reserves exhausted by 2019.



In order to address this deteriorating financial position, Council will need to adopt short term measures to manage its liquidity by:

- Cutting basic services to the community
- Reducing maintenance and asset renewal of its extensive infrastructure network (primarily roads and bridges)

Council’s long term response to sustainability is to increase the number of people residing in communities throughout the Towong Shire. This would support better utilisation of existing rural infrastructure and result in costs being spread over a larger ratepayer base. Council has demonstrated its commitment to this long term strategy with its delivery of a number of key strategic projects, including:

- master planning exercises in key communities (Tallangatta Tomorrow, Our Bellbridge, Our Valley Our Future, Upper Murray 2030)
- construction of new recreational facilities and multi-purpose centres throughout the Shire (Cudgewa, Mitta Mitta, Tallangatta, Walwa, Wyeboon)
- establishment of a child care service in Tallangatta
- progressing a Domestic Wastewater Management Plan to enable additional residential development in sought after areas of the Shire.

If there is not adequate funding to provide basic services and infrastructure, people will relocate to larger shires and regional cities where they can access a level of services and infrastructure that meets their needs and enhances the liveability of the community. A reduction in the local population becomes a downward spiral for rural towns, as there are less residents to contribute to the social fabric of the community and to share the cost of local services and infrastructure. This in turn places greater financial pressure on rural Councils.

A short term response to addressing Council’s deteriorating financial position will compromise a longer term, more sustainable approach that will assist our rural communities to be more vibrant and our Council to be more financially sustainable into the future.

Fairness, equity and adequacy of rating systems

Towong Shire Council has determined to apply a differential rating system to properties throughout the shire. This approach recognises the significant number of agricultural or rural properties that make up our ratepayer base. In addition, Council also applies a municipal charge on each property to cover part of the administrative costs of operating Council, and to assist with the equitable spread of the rate burden across the whole Shire.

Council determines the rate in the dollar that is applied to property values throughout the Shire and the level of municipal charge (subject to the Fair Go Rates Policy). Council is also balancing the capacity of ratepayers to pay increased rates and ensuring that Council is able to provide services and maintain infrastructure in the longer term.

Whilst Council determines the services that will be provided within the Shire, it is limited by the financial capacity of its ratepayers. A Council like Towong provides a very basic level of services to the community because it cannot afford to offer a higher level of service.

In Towong Shire, median household income is \$850 per week. This compares to the State median of \$1,420 per week. From a socio-economic perspective Towong Shire ratepayers have less capacity to pay local government rates. Often it is community members with lower socio-economic means that most need access to local government services and infrastructure.

With the current rating system a residential property in one municipality will pay different rates or property tax to that in another municipality. For example, the rates and charges on an \$800,000 residential property will vary significantly across the state. The following table provides a sample of the rates that would be payable on an \$800,000 residential property compared to the median annual household income. As detailed, the rates can vary from \$962 to \$6,990 per annum, depending on the local government area where the property is located. The contrast in the rates as a % of median household income is striking – from 1% in the City of Stonnington to 10% for the property owner in the Towong Shire.

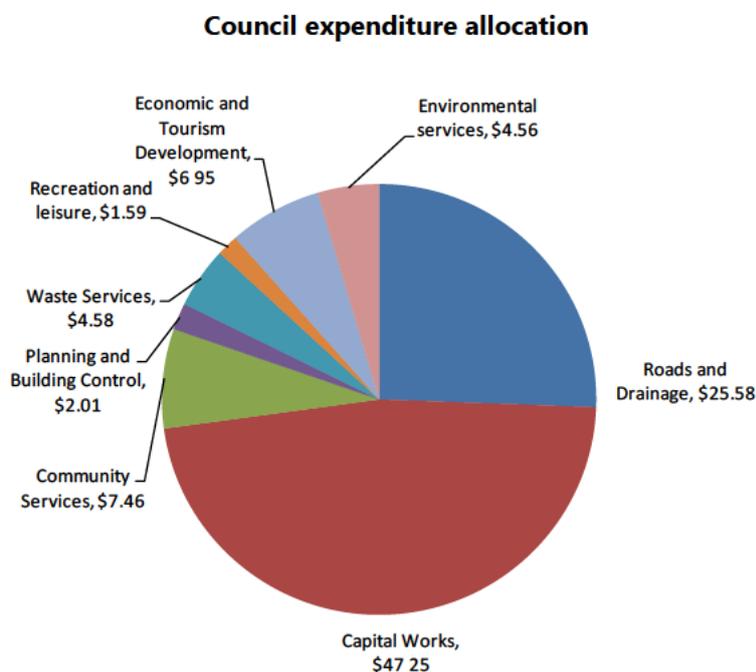
Council	Rates on a \$800,000 Residential Property	Median annual household income	Rates as % of median household income
City of Stonnington	\$ 962	\$ 89,544	1%
Mornington Peninsula Shire Council	\$ 1,684	\$ 54,808	3%
South Gippsland Shire Council	\$ 4,339	\$ 47,840	9%
Buloke Shire Council	\$ 6,990	\$ 38,584	18%
Towong Shire Council	\$ 4,201	\$ 44,200	10%

A fairer rate system would recognise the lower level of service and the lower capacity to pay of rural ratepayers and provide a more equitable distribution of rates (a property tax established by the State) between local government areas.

Maintenance of local road and bridge networks

Towong Shire has 947 km of sealed local roads and 167 bridges across its 6,536 km square kilometres. This infrastructure, at a written down value of \$150.8 million, accounts for 85% of Towong Shire Council's fixed asset base. Annual maintenance of roads and bridges is budgeted at \$2.3 million for 2016/17 and accounts for 24% of Council's recurrent expenditure. In 2016/17 the renewal of local roads and bridges accounts for 45% of Council's capital works program.

The following chart has been extracted from Council's 2016/17 Budget. It provides a visual representation of how Council allocates its expenditure across the main services that it delivers. It shows how much is allocated to each service area for every \$100 that Council will spend in 2016/17. Taking into account the roads operating expenditure and 45% of the Capital Works segment, roads and bridges expenditure accounts for almost \$47 of every \$100 that Council spends.



As already detailed in this paper Council is operating in a very tight financial environment. The maintenance of local roads and bridges is a significant cost for Council. Council has been committed to renewing 100% of assets when they require renewal (based on expert recommendations).

The Victorian Government's Country Roads and Bridges Program operated from 2011 to 2015, contributing \$1 million each year to Council to repair or upgrade local roads and bridges. This funding invested in local rural infrastructure and reduced the financial burden on Council. This program was ceased in 2015 and has not been replaced.

As the financial environment becomes even more constrained, it is expected that there will be a necessity to reduce asset renewal below expert recommended levels. In the medium term, this will have significant implications for Council's operating budget (with an expected increase in reactive maintenance and associated costs) and for community members and commercial operators using infrastructure assets of a deteriorating or unacceptable standard. This will impact on the safety of local road and bridge users, reduce the potential for our tourism businesses to be competitive and reduce the viability of our key industries (agriculture and forestry).

Weed and pest control

Legislative changes have transferred responsibility for weeds and pest animal control from the State Government to Local Government over a long period of time.

Under s 20 of the Catchment and Land Protection Act, all land owners, including the Crown, public authorities and licensees of Crown lands, must, in relation to their land, take all reasonable steps to:

- avoid causing or contributing to land degradation which causes or may cause damage to land of another land owner;
- eradicate regionally prohibited weeds;
- prevent the growth and spread of regionally controlled weeds on their land;
- prevent the spread of, and as far as possible, eradicate established pest animals¹.

For Councils, these shifts and legislative requirements have resulted in Councils being responsible for significant tracts of land, including public parks and reserves and most significantly, rural roadside areas.

Some funding has been made available to Councils to support the cost of managing weeds and pest animals, particularly where they relate to roadside works. The Roadside Weeds and Pests Management Program (RWPP) provides \$5.2 million (2015-2017) for rural and regional councils to plan and manage regionally prohibited, regionally controlled and restricted weeds and pests on rural roadsides².

In 2015/16, Towong Shire Council received \$31,000 under this funding program. With Council maintaining 1,183 km of roads throughout the Shire, this funding equates to just \$25.80 per kilometre per annum. This funding is insufficient to cover the costs of activities associated with weed and pest animal management. In 2015/16, the cost to Council of blackberry management on roadsides was \$41.86 per kilometre. In addition Council also carried out pest animal control on roadsides in the Dartmouth area at a cost of \$3,000.

Towong Shire Council has responsibility for extensive road networks, has limited resources and limited expertise in pest species management. This increases the risk of pest weed outbreaks occurring in areas where there is no additional capacity within Council to manage the event. Should an event occur, our Council is at risk of costly litigation. Council is effectively subsidising the cost of maintaining the environment for the rest of the State to enjoy.

¹ <http://agriculture.vic.gov.au/agriculture/pests-diseases-and-weeds/protecting-victoria-from-pest-animals-and-weeds/legislation-policy-and-permits/noxious-weed-and-pest-animal-management-your-legal-roles-and-responsibilities>

² <http://www.delwp.vic.gov.au/local-government/council-funding/roadside-weeds-and-pests-management-program>