

Submission to the Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils

Bass Coast Shire thanks you for the opportunity to provide a submission to the Inquiry into the Sustainability and Operational Challenges of Victoria's rural and regional councils.

The focus of our submission to the committee is with regard to:

- a) local government funding and budgetary pressures;
- b) fairness, equity and adequacy of rating systems; and
- c) impact of rate-capping policies.

Profile of Bass Coast Shire

The Bass Coast Shire is located approximately 130km south east of Melbourne and is bounded by Western Port in the north and west, Cardinia Shire in the north east, South Gippsland Shire in the east and Bass Strait in the south.

Bass Coast's main centres are Wonthaggi, Cowes (Phillip Island), Inverloch, San Remo and Grantville. In addition, Bass Coast comprises a further 28 towns.

With over 30,000 permanent residents calling Bass Coast home, our proximity to Melbourne also makes it very attractive to visitors and to people wanting to make a sea change, with our population swelling to over 80,000 during peak periods.

With a vision for "Bass Coast Shire to be recognised as a unique place of environmental significance where the quality of life and sense of community is balanced by sustainable and sensitive development, population and economic growth", the municipality faces a constant challenge to achieve a sustainable balance.

In striving to achieve that, Council takes a leading role, in close partnership with other levels of government, businesses, community groups and individuals to make our community's vision a reality.

Local government funding and budgetary pressures

It is our view that local government funding is problematic and trying to address it in simplistic and uniform ways only increases unfairness and inequity, specifically because we are not all the same. For example, not every rural municipality has a clear regional centre but is nonetheless funded as if the municipality does. In cases where there is no clear regional centre, councils are expected to support and enable facilities and services that would be available in a regional centre. This only exacerbates the issue of sustainability. Further, the level of resident versus non-

resident and rural versus urban, has significant impact on the demands and the capacity of the municipality to have sustainable funding streams.

For Bass Coast, one of the key concerns is the level of growth (or lack of) in revenue streams. Certainly rate capping is one limiting factor, however of equal concern is the quantum and impact of state derived revenue, from stamp duties, gaming and the like, that continues to grow at levels greater than CPI, which is then money withdrawn from the community, yet not returned to the community at a sustainable rate. Further, the manner in which joint services funding continues to not keep pace with the increased costs of providing those services is another key concern of Council, which results in councils continually and increasingly subsidising what are fundamentally state responsibilities.

The answer will not be to address an existing formula, an intra government agreement or even lay at the feet of any particular level of government. The issue fundamentally needs to be addressed as a partnership of all levels of government, nationwide. This partnership must focus on more accurately matching; the responsibilities of assets and services provided for and on behalf of the communities, with the revenue streams and funding opportunities.

Fairness, equity and adequacy of rating systems

The rating system is by its nature a mechanism to distribute the taxation burden. At its core, is the assumption that the most equitable way to distribute the tax burden is by way of the value of the property. Many may argue that the property value mechanism is a proxy for the earning capacity and is therefore flawed. However, we would contend that the property value is in fact a proxy for gross wealth in our current free market economic system, and it must be remembered that it is a primarily a tool for distribution, not a judgement of worth. This value system does not discriminate between age, nationality, religion or income, and is therefore fundamentally an equitable system. This is certainly the aim of the Capital Improved Value methodology.

Fairness however is a personal or values based system and will produce a different outcome, as it is based on one's own perception of fairness. The existing system, which allows for differential rating, then allows the Council to inject "one's own" perception of fairness into the rating system. The key problem with the differential system is the apparent desire by the state to make the differentials consistent across the state. The system clearly needs to allow greater flexibility and simplicity to allow councils to address the perceived fairness between communities within a municipality. This allows for the peculiarities of local communities to be reflected.

Another deficiency is the need for a good mechanism to more broadly provide fairness between communities. A combination of rating flexibility and a fairer "equalisation" process through other government funding would eliminate many of the sustainability issues.

Impact of rate-capping policies

It is our view that rate capping will have a long term impact on the sustainability of many local governments across the state and ultimately adversely impact on the state's economy and its community's well-being. For example, rural and regional councils may be able to continue their operations and maintain renewal expenditure within a rate cap but few, if any, will be able to afford significant investment in new infrastructure.

This will have an adverse effect on the whole state economy, which we expect will be even greater than the notional contribution by council, as in many instances such funding is matched by grants or community contributions. We expect that some councils will only be able to continue their day to day operations under a rate cap, which will then force a reduction in their investment on the renewal of existing infrastructure or place them in the position of having to cut services in order to maintain their renewal investment. We can expect that many councils will then take a short term approach and sell assets.

The impacts previously mentioned bear considerable similarity to the choices faced by Victorian councils in the era of amalgamations and an imposed 20% rate cut.

There is no getting away from the facts of the past that rural and regional Councils lost assets, created an infrastructure renewal gap, and had reduced capacity to deliver new infrastructure under previous rate controls. Similarly, there is no obvious way of avoiding the same impact under the current rate capping regime.

In stating those clear similarities, Local Government is now in a position to better understand the impacts and is more likely to now inform its community of those impacts and the hard decisions that now need to be made in order to have any chance at a sustainable future.

General comment

The fact that councils are rural or regional is where the homogeneity amongst rural and regional councils ends. There is such an array of unique challenges, whether environmental, social or economic, that they cannot simply be viewed as a generic local government entity. The funding opportunities and requirements of these councils needs to then be considered differently than is currently the case.

We all acknowledge that there is no easy fix and there will not be any magic bullet or endless cash flows to solve the problems we now face. At a local level, all local councils are genuinely working towards efficiencies in operations and are seeking to work together collaboratively to reduce costs and share resources, however this will only ever take us so far.

This remains fundamentally an issue to be addressed as a partnership at all levels of government. We believe that the Victorian State and Local governments together can take a lead role with the other states and commonwealth to create a partnership that places the service and asset needs of our communities at its core.