

SUBMISSION IN RESPONSE TO THE PARLIAMENTARY INQUIRY INTO THE SUSTAINABILITY AND OPERATIONAL CHALLENGES OF VICTORIA'S RURAL AND REGIONAL COUNCILS

12 September 2017

SUMMARY

This submission addresses the following terms of reference and issues:

- a) Local government funding and budgetary pressures**
 - Difficult decisions need to be made by councils to balance budgetary pressures with community and State Government expectations of service delivery
 - Cost shifting adds to financial pressure
 - Risk exposure of Defined Benefit Superannuation Scheme and lack of clarity about ability to claim rate cap variation to help fund future calls
- b) Fairness, equity and adequacy of rating systems**
 - Need to educate ratepayers about how rating system works
 - Concern about proposed property valuation reform
- c) Impact of rate capping policies**
 - Business improvement program implemented at City of Greater Geelong
 - Concern about long term impact of rate capping
 - Infrastructure challenges faced by growth councils
- d) Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure**
 - Support the Relevant Floodplain Management Authorities being reinstated as determining authorities
 - Support a single state wide lead agency to be responsible for coordinating coastal hazard assessments and coordinating mitigation response
- e) Maintenance of local road and bridge networks**
 - Infrastructure renewal gap of \$12.6M – funding needed to cater for growing communities
 - Challenge in attracting large scale funding for major road infrastructure needs (eg. Bellarine Link, Barwon Heads Road duplication)
- f) Weed and pest animal control**
 - More funding needed to assist councils and community to manage roadsides
 - Need for State Government to undertake and enforce pest plant and animal control on private land. Councils do not have the jurisdiction or resources.

CONTEXT

The City of Greater Geelong has just completed a 30-year vision developed in consultation with the community (16,000 people) and key business and community partners.

[Greater Geelong: A Clever and Creative Future](#) will guide our region's development over the next 30 years, and was endorsed by the City's Administrators at the 25 July Council meeting.

The councils of other cities around the world, including Melbourne, have successfully delivered long-term plans by sticking to them, orienting their budgets towards them, influencing the plans of other stakeholders, lobbying government for their support, and facilitating an environment that encourages private investment.

Clever and Creative provides clarity of a long-term focus for the region, which will assist us to attract business opportunities and investment and inform how we grow.

The City of Greater Geelong is a high growth council with a current population of 230,000. 82% of people live in urban areas, 18% in rural areas. There are social equity issues to be addressed. The 1,248 square kilometres of municipality is a diverse mix of environments – urban, rural and coastal areas - requiring specialised management.

RESPONSE TO TERMS OF REFERENCE

a) Local government funding and budgetary pressures

Local government funding and budgetary pressures continue to be a major challenge as we try to meet community and State Government expectations for service delivery and planning. With a commitment to 126 services the City of Greater Geelong will continue to review future service needs and where necessary make difficult decisions. The recent closure of the Geelong Saleyards is an example of appropriate risk assessment and service review followed by a difficult decision.

Where Council is in direct control of services this process is managed effectively. However where there is a service responsibility which is recognised by the State with funding, often Council is disadvantaged. Council is locked into service delivery in areas such as maternal child health, school crossing supervisors, library funding and emergency services where the State's contribution to operational funding declines relative to Council. The reduction of State Government contribution to library funding from 50% to 15% is an example of the costs that are expected to be absorbed by local government.

Council continues to respond to these pressures in a proactive way. A Fees & Charges policy has recently been adopted along with a Fair Play Strategy for Recreation & Open Space Usage. These policies will provide future guidance on the user pays approach for service delivery.

There is an ongoing exposure to significant risks outside of Council's ability to fund, in particular the funding of the Defined Benefit Superannuation Scheme.

As at 30 June 2017 the vested benefit index is at 103.1% which provides some comfort to councils that there is no immediate threat of a funding call.

It has been previously advised to councils that as a closed fund, a future call is inevitable. However future calls cannot be reliably estimated and therefore no provision/contingency has been made in future budgets.

There have been four shortfalls and calls upon Victorian councils to pay. The City of Greater Geelong has always met its obligations and paid promptly. These payments have been funded via reallocation of funds from priority projects and borrowings, leading to rate increases:

1998 (\$15.04M) was a result of local government reform;
2002 (\$6.26M)
2008 (\$4.57M), primarily a consequence of poor investment returns
2012 (\$23.5M)

It is likely that Council would need to fund a future call by applying for a variation to the rate cap. Council will have no flexibility to absorb an unplanned financial obligation from working capital.

The City of Greater Geelong calls on the State to provide clarity to local government on the ability to claim a variation to the rate cap to fund any future exposure of defined benefit unfunded liabilities.

b) Fairness, equity and adequacy of rating systems

While the Local Government Act at Part 1A Local Government Charter – Section 3C(2) (f) provides that an objective of council should be “to ensure the equitable imposition of rates and charges”, the Act does not further define equity or efficiency of the rating structure and so it can be presumed that the adoption of a legal rating framework will ensure equity and efficiency within the meaning and principles of the legislation.

However Council acknowledges that the existing taxation of property (wealth tax) value method is imperfect. The application of an alternative rating model (eg income tax) is not available within the current constraints of the existing legislation. Property taxes do not recognise the situation where ratepayers are “asset rich” and “income poor”. In some cases ratepayers may have considerable wealth reflected in property they own but have a low level of income. Examples include pensioners, self funded retirees, businesses subject to cyclical downturn, households with large families and property owners with little equity but high levels of mortgage debt.

Rates are in the form of a general purpose levy and the benefits that a ratepayer may receive will not necessarily be to the extent of the tax (rates) paid. Benefits are consumed in different quantities and types over the lifecycle of the ratepayer (eg. maternal and child health, libraries and aged care roads and footpaths, local laws).

In April 2013 the Ministerial guidelines for differential rating were released with the aim of promoting good practice and greater consistency in the application of differential rating in Victoria. The City of Greater Geelong responded to the guidelines and the number of differential rate in \$ has been reduced to seven (including cultural & recreation). Council continues to maintain a separate farm differential to recognise and encourage the retention of broad acre farming in the region.

The rate in dollar for each differential are set according to policy positions which are outlined in the rating strategy and reviewed each year through the budget process.

Ratepayers regularly make comparisons of rates between councils and challenge why their rates are so high in one municipality relative to what their rates would be in another municipality. Council responds to this challenge of fairness by stating that rate comparisons are best achieved by focusing on the average valuation and the average rates payable. This avoids the distortion of comparisons where a \$1M commercial property in Geelong which is above average while a \$1M property in Melbourne is significantly below average. Therefore the rate in \$ will be set differently for the revenue targets to be achieved. There is an ongoing need to educate ratepayers that rates are not uniform across the state.

The current legislative rating framework does not universally cater for significant revaluation property movements in rates ("rates shock") on a case by case basis. Ratepayers are surprised to receive a rate notice from one year to the next with significant and unexpected rate increases. We expect that the 2018 revaluation and results will once again highlight this weakness with ratepayer discontent. The revaluation results in no windfall gain for council but a redistribution of the rating burden.

The proposed property valuation reform and the annual valuation cycle will further confuse ratepayers as to who they speak to regarding their rate notice. The rate notice will contain the CIV valuation set annually by the Valuer General, the rate in the dollar set by Council according to the rating strategy, overall rate increases set by the State as per the rate cap and Fire Service property levy set by the State.

c) Impact of rate capping policies

The City of Greater Geelong has accepted the challenge of rate capping and is responding with positive initiatives. A business improvement program has been established and the 2017-18 budget includes an efficiency dividend of \$2.125M which amounts to \$7.5m of ongoing savings over the four year Strategic Resource Plan.

Council has also set aside funds in the 2017-18 budget to implement digital reform as part of a broader ICT Strategy to deliver better services more efficiently.

There are however serious concerns about the long term impacts of rate capping. The State has linked rate capping to inflation, however inflation indicators continue to trend down while a number of areas local government expenses increase at higher rates. Furthermore if an efficiency dividend is introduced then this would represent a duplication on what council has already imposed in order to adhere to the rate cap. The City of Greater Geelong calls on the State Government not to introduce an efficiency dividend on top of the rate cap, instead recognising that the rate cap itself will drive sector efficiency reforms.

The City of Greater Geelong is described as a 'growth' council, similar to the outer Melbourne metropolitan councils but without the benefit of the State's Growth Area Infrastructure Contribution fund and with the additional responsibility of being the sole drainage authority (there is no equivalent to Melbourne Water). We are experiencing significant population and residential property growth. While it is recognised that 'growth' councils receive the long term benefit of an expansion to the rate base, there

are considerable short to medium term financial pressures that need to be taken into account as part of rate capping considerations.

We are challenged with the dual pressure of managing growth and renewing ageing infrastructure. Maintaining an affordable and acceptable service level across a vast array of services is one of our primary objectives. CoGG is going through a transition with priority investment in new infrastructure in growth areas required to service demand. This outlay is competing with the measurable need to reinvest and renew current infrastructure to ensure ongoing service provision. Current levels of renewal capital expenditure relative to depreciation are 52% and the ratio is only expected to decline as forecast in the Strategic Resource Plan (45.86% by 2020-21). The City of Greater Geelong recognises the challenge known as the asset renewal gap. The gap exists due to the inability to fund infrastructure asset replacement as the asset condition degrades. The current renewal gap is estimated at over \$12m.

Council's Long Term Financial Plan makes provision for implications of 'growth' and funding towards our obligations under approved Development Contribution Plans (DCPs). The capital funding gap over the life of these DCPs is estimated at \$22.6M, plus escalation over the life of the DCP. In addition, there are new operating cost increments to operate community complexes and pavilions to serve the needs of new communities.

d) Capacity for rural and regional councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure

We have responsibility for the maintenance of all Council owned stormwater drainage. With more than 1589 kilometres of drains to manage across our municipality, the stormwater collection system is located within roads, reserves and easements and is made up of a network of structures including pipes, pits, channels, flood retarding basins and litter traps – 62,000 pits.

The City contains 21 named waterways, including creeks and river systems. These waterways form an important drainage network, with a combined length of approximately 1,350 km. There is also a significant network of drainage infrastructure of which 1,898 km is owned and maintained by the City.

This drainage network can create flash flooding risks where the system has not been historically designed to carry major flooding events through the drainage network. The result is surcharge of floodwaters, or flash flooding.

Stormwater flooding is a significant risk to the City. There are a number of urbanised catchments within Geelong that are subject to periodic flash flooding or stormwater flooding. The City also has a number of structural works (levees) that perform flood mitigation functions located within the City of Greater Geelong's region.

The City of Greater Geelong has been a partner in the Local Coastal Hazard Assessment project now titled, Our Coasts for the Bellarine and Corio Bay. This project has been described in more detail at <http://www.ourcoast.org.au/> The project is investigating adaptation solutions and responses to the coastal hazards and risks identified in the earlier stages of the program. Adaptation solutions may involve a range of responses including: changes to the planning scheme; further research; coastal engineering; building/urban design, and behavioural responses.

The City has limited resources to maintain these drainage assets along with the capacity to plan for and design mitigation measures and new infrastructure to protect communities and support development. As the drainage authority we work with the CMA to manage the flood plain. However the City coordinates and undertakes relevant flood studies to inform future needs.

We support the MAV (submission 46) in recognising the value of the Relevant Floodplain Management Authorities being reinstated as determining authorities to ensure their technical expertise is considered as part of the planning permit process and the management of development in the flood plain is not undermined.

In their submission the MAV stated that the Coastal Climate Change Advisory Committee identified the need for a single state wide lead agency to be responsible for coordinating coastal hazard assessments along the coast and preparing and coordinating a mitigation response. We support this view.

e) Maintenance of local road and bridge networks, and

Our high growth and development has increased traffic on local roads leading to increased maintenance requirements. Funding to upgrade roads to cater for future needs is sought to ensure that services are provided to these growing communities. Our current infrastructure renewal gap is approximately \$12.6m.

We have major road infrastructure requirements that require significant funding.

A growing population is causing east-west traffic congestion through central Geelong and increased traffic through suburbs and townships.

Extending the Geelong Ring Road to the Bellarine Highway is vital for sustainable long-term residential and commercial development, bringing many Bellarine Peninsula townships within ready commuting distance of Melbourne.

The Barwon Heads Road is in need of duplication to cater for increasing traffic due to development of the Armstrong Creek growth area.

Short term

There are four priority intersection upgrades needed to improve regional connectivity, productivity and smoother and faster freight movement. \$18.1M is needed to upgrade:

- Latrobe Terrace – Ryrie Street intersection \$2.7M
- Latrobe Terrace – Fyans Street intersection \$2.7M
- Latrobe Terrace – McKillop Street intersection \$2.7M
- Boundary Rd – Fellmongers Rd intersection \$10M

Medium term

Upgrade of Breakwater/Fellmonger/Boundary Roads \$30M
Upgrade of Fyans St (Latrobe Tce – Carr St) \$25M

Barwon Heads Road duplication – VicRoads is preparing a business case to upgrade the Barwon Heads Road corridor to service the Armstrong Creek growth area (projected population 60,000), the Barwon Heads community and general tourist traffic. Approx cost \$200M

Long term

Bellarine Link – VicRoads is preparing a business case to extend the Geelong Ring Road from Armstrong Creek (Surf Coast Highway) to Portarlington Road. Approx cost \$250M - \$350M

The scale of funding required for major road infrastructure needs commitment from all levels of government. This is an ongoing challenge.

f) Weed and pest animal control

The City of Greater Geelong manages 300km of roadside, and spends \$134,000 per annum on weed control and rehabilitating and protecting areas of remnant vegetation.

The decision to transfer responsibility for weed and pest animal management to local government means that there are councils who simply do not have the resources to manage hundreds of kilometres of roadsides.

State Government needs to provide ongoing funding to assist Councils and community to manage roadsides.

State failure to enforce compliance on private land

State Government needs to return some level of resourcing to undertake pest plant and animal control on private land. Landcare and those members of the community who actively undertake pest plant and animal control have lost faith in State Government agencies to undertake enforcement. Local councils are then contacted but are unable to assist due to lack of resources. The legislative power to undertake enforcement rests with State Government agencies.

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