Colac Otway
SHIRE

Our Ref: F14/5991
Your Ref:

14 May 2015

Dr Ron Ben-David
Local Government Rates Capping and Variation Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

Sent via email: localgovernment@esc.vic.gov.au

Dear Dr Ben-David

Local Government Rates Capping & Variation Framework

I refer to the consultation paper "Local Government – Rates Capping & Variation Framework" dated April 2015.

Colac Otway Shire Council is appreciative of the opportunity to provide comments on the consultation paper and additional comments on the important issue of rate capping.

The attached paper is Colac Otway's initial submission to the ESC. Colac Otway will consider the preparation of a further submission on receipt of the outcomes of this stage of the Local Government Rates Capping & Variation Framework Review.

Should you require further details on the matters raised in this submission please contact me on 5232 9400.

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Colac Otway
SHIRE

RATE CAPPING SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION VICTORIA (ESC)

CONTENTS

RATE CAPPING TERMS OF REFERENCE

On 19 January 2015 the Minister for Finance issued a Terms of Reference to the Essential Services Commission.

The Terms of Reference is detailed below.

Local Government Rates Capping Framework

Terms of Reference

I, Robin Scott MP, Minister for Finance, under section 41 of the *Essential Services Commission Act 2001* (the 'ESC Act'), refer to the Essential Services Commission (ESC) the development of a rates capping framework for local government.

As provided for by section 185b of the *Local Government Act 1989,* the Minister for Local Government can cap council general income. The Government has announced a commitment to cap annual council rate increases[1] and has also provided additional guidance on factors to be considered during the implementation of the cap[2].

The State Government's objective is to contain the cost of living in Victoria while supporting council autonomy and ensuring greater accountability and transparency in local government budgeting and service delivery. The Government intends to promote rates and charges that are efficient, stable and reflective of services that the community needs and demands, and set at a level that ensures the sustainability of the councils' financial capacity and council infrastructure, thereby promoting the best outcomes for all Victorians.

The ESC is asked to inquire into and advise the Ministers for Finance and Local Government on options and a recommended approach for a rates capping framework for implementation from the 2016-17 financial year. Advice should include and/or take into account the following matters:

1) Available evidence on the magnitude and impact of successive above-CPI rate increases by Victorian councils on ratepayers.
2) Implementation of the Government's commitment to cap annual council rate increases at the Consumer Price Index (CPI) with councils to justify any proposed increases beyond the cap, including advice on the base to which the cap should apply (e.g. whether to rates or to general income).
3) Any refinements to the nature and application of the cap that could better meet the Government's objectives.
4) Options for the rate capping framework should be simple to understand and administer, and be tailored to the needs of the highly diverse local government sector. The framework should take into account factors that may impact on local governments' short and longer term financial outlook, such as:
   a) actual and projected population growth and any particular service and infrastructure needs;
   b) any relevant Commonwealth Government cuts to Local Government grants;
   c) any additional taxes, levies or increased statutory responsibilities of local

governments as required by the State or Commonwealth Governments;

d) any extraordinary circumstances (such as natural disasters); and

e) other sources of income available to councils (for example, ability to raise user fees and charges from non-residents).

5) Consider how local governments should continue to manage their overall finances on a sustainable basis, including any additional ongoing monitoring of council service and financial performance to ensure that any deterioration in the level, quality or sustainability of services and infrastructure and councils' financial position is identified and addressed promptly.

6) The processes and guidance to best give effect to the recommended approach for the rates capping framework and a practical timetable for implementation, including:

   a) the role of councils, the ESC and the Victorian Government and the expected time taken by local governments and by the Victorian Government or its agencies, for each step in the rate capping process;

   b) any technical requirements including the information requirements on councils that request exemptions from the cap;

   c) any guidance required to give effect to the rate capping options (including in relation to consultation with ratepayers) and to improve accountability and transparency; and

   d) any benchmarking or assessment of the effectiveness of the regime, including options to continuously refine the regime and improve council incentives for efficiency.

7) Options for ongoing funding to administer the rate capping framework, including the potential for cost recovery.

In conducting the inquiry and providing its advice, the ESC will have regard to:

- the role of local government in the provision of infrastructure and services to the community and the general efficacy with which they currently perform this task;
- the differences between rural, regional and metropolitan local councils in terms of costs, revenue sources and assets maintained;
- the Revenue and Rating Strategy guide and Local Government Performance Reporting Framework to be administered by the Department of Environment, Land, Water and Planning;
- matters regarding rating practices and asset renewal gap raised by the Victorian Auditor-General's Office (VAGO);
- Department of Treasury and Finance's Victorian Guide to Regulation and Victorian Cost Recovery Guidelines; and
- any relevant insights from the experience of rate pegging in New South Wales, including any reviews or evaluations that can suggest ways to minimise any

unintended consequences.

In conducting this independent inquiry, the ESC will be informed by wide consultation. This will include, but is not limited to: councillors and officials from local government; representative bodies such as Municipal Association of Victoria, Victorian Local Government Association and LGPro; unions; VAGO; and relevant government agencies and departments. In addition, the ESC will consult regularly throughout the course of the inquiry with a sector consultative panel established by the Minister for Local Government. The ESC's consultation will be guided by its Charter of Consultation and Regulatory Practice.

The ESC will publish a draft report on the rates capping framework no later than six months after receipt of these terms of reference. The draft report must be made publicly available and invite comments from local governments and other interested parties. A final framework report along with draft guidance material will be provided to the Minister for Finance and Minister for Local Government no later than 31 October 2015.

ROBIN SCOTT
Minister for Finance
Dated: 19 January 2015

EXECUTIVE SUMMARY

This is Colac Otway's initial submission to the Essential Services Commission Victoria (ESC) on rate capping on Victorian municipalities.

Colac Otway appreciates the opportunity to provide this initial submission and will review information when prepared by the ESC for further consideration.

Colac Otway like many other Victorian councils has significant concerns regarding the impacts of rate capping on the municipality and does not believe that rate capping represents strong public policy outcomes.

The ESC is encouraged to explore other alternatives to Rate Capping taking into account the significant pressures that Rate Capping will place on Councils. It has been well documented that CPI is not a true measure of the annual increase on Council's operations and it is critical that all options are explored.

One option available is a "Local Government Index" which takes into account the impacts such as Local Enterprise Agreements and Cost Shifting from other levels of Government have on the ability of Councils to keep rate increases at CPI.

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.

The impact for Councils in regional and rural areas will be significantly bigger as the opportunity to raise revenue from other income sources is harder than in Metropolitan areas.

The following submission provides details on a number of aspects that are mentioned above.

COLAC OTWAY SHIRE RESPONSE

INTRODUCTION/BACKGROUND

Council Plan 2013-2017

The following information is taken from the Council Plan 2013-2017 for Colac Otway Shire.

It provides details about the Shire and the Challenges that Council is currently already facing.

The Shire at a Glance

- Area: 3,427 sq kilometres.
- Length of Local Roads: 1,632 kilometres.
- Coastline: 95 kilometres.
- Forest and National Park: 110,000 hectares.
- Estimated population: 20,973
- Population born overseas: 7.5%
- Population growth rate: 1.2%
- Employment rate: 97% (full time, 57%)
- Rateable properties: 14,768

Location and history

Colac Otway Shire is located in Victoria's south west within a two hour drive of Melbourne, and approximately an hour to the large regional cities of Geelong to the east and Warrnambool to the west.

The Shire contains the major urban centre of Colac, the coastal resort towns of Apollo Bay and Skenes Creek, the rural townships of Birregurra, Beeac, Cressy and Forrest, and a large rural hinterland. A large proportion of the Shire is made up of Forest Park and National Park.

Development in the Shire dates from the 1850s when pastoralists and timber-getters established themselves in the areas around Colac. Colac experienced significant growth in the first half of the 20th century as it became the major service centre to the agricultural areas to the north and the timber getting areas to the south. Apollo Bay was established in the 1860s as a port for the timber being harvested in the Otway Ranges. The construction of the Great Ocean Road in the 1930s opened up the coastal strip for development and in more recent years Apollo Bay has established itself as a holiday destination.

People

Our estimated population for 2013 is 20,973. The forecast through to 2031 is for a growth of approximately 1% per annum. We expect this to increase once the dual highway to Geelong is completed as it will open up the region making commuting an attractive option for both the local population and for those seeking a lifestyle change.

Growth over the coming 18 years is also predicted to be steady; however with an increasingly ageing population.

Age Structure

Age structure is an important indicator of an area's residential role and function and how it is likely to change in the future. The age structure of a population is usually indicative of an area's era of settlement and provides key insights into the level of demand for services and facilities, as most services and facilities are age-specific.

0 – 4 years 6.2%
5 – 19 years 19.4%
20 – 34 years 14.8%
35 – 59 years 34.0%
over 60 years 25.6%

Education and Employment

Young people in Colac Otway Shire tend to leave school earlier and are less inclined to go to university, compared with regional Victoria. Overall, 41.9% of the population left school at Year 10 or below, and 31.9% went on to complete Year 12 or equivalent, compared to 39.0% and 35.6% respectively for regional Victoria.

On the other hand, our Shire experiences a higher employment rate, 97% (full time, 57%; part time, 40%) when compared with regional Victoria, at 94.8%.

The major industry sectors are:

- Manufacturing (1,204 persons or 12.7%)
- Health Care and Social Assistance (1,197 persons or 12.6%)
- Agriculture, Forestry & Fishing (1,134 persons or 12.0%)
- Retail Trade (992 persons or 10.5%)
- Tourism (807 persons or 8.5%)
- Education and Training (568 persons or 6%)
- Public Administration and Safety (includes Local Government) (460 persons or 4.8%)

In combination, these industries employed a total of 6,248 people or 74% of the employed resident population.

Challenges Facing Council

The challenges we face can be clustered into two broad areas, these are:

1. **Council specific challenges.**

   These challenges are directly under the control or responsibility of Council and Council will need to decide if the challenge requires a strategic response and resource allocation.

2. **Broad Shire community challenges.**

   These liveability issues are faced by the whole Shire, not just the Council as a Local Government Authority, and therefore require multi-agency collaboration if they are to be addressed.

Financial Constraints

Council has limited capacity to raise funds through traditional means i.e. rates. This results in a tension in finding a balance between the financial burden faced by the community and the ability to meet future needs and aspirations. The introduction of rate capping by the State Government, to take effect from July 2016, will increase the pressure on our capacity to provide services.

Complex Regulatory Environment

Colac Otway Shire operates in a highly regulated environment, with complex planning and building control systems administered by the State Government.

Given the topography and location of the Shire, properties along the southern extent of the Shire are burdened by an array of zones and overlay controls that apply to ensure that important land use and development issues are addressed. These issues range from protecting water quality in declared water catchments, protection of nationally significant landscapes, avoiding landslip potential, protecting significant flora and fauna, responding to bushfire threat and protecting the valued neighbourhood character of the smaller coastal towns. In many areas there is a concentration of these planning controls.

Ageing Population

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

- community care services
- arts, culture and open space facilities and events
- infrastructure to ensure accessibility
- pressure will increase for access to:
  - age-friendly built environment
  - appropriate housing
  - health services, especially outlying areas
  - transport opportunities throughout the shire
  - internet throughout the shire
  - community events throughout the shire.

An ageing population also has workforce implications, with a potential mass exodus of 'baby boomers' related to retirement and consequent loss of talent and experience.

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.

The median net income of couple families is comparatively low, the proportion of sole parent families is higher than that for the rest of Victoria and education attainment for parents is lower.

Early Years

This has implications for early years' development including:

- Early years' service provision. Overall demand for services is higher and the proportion of complex cases is greater. It is critical that services are affordable and physically accessible.
- A higher level of children in Colac specifically vulnerable in physical health and well being; social competence; and communication skills and general knowledge.

Youth

- We lose significant numbers of young adults as they seek employment and education and training opportunities in larger centres. This is a trend common to most rural and regional areas in Australia; however it is a particular issue for our Shire.
- Ongoing issues with helping young people find a sense of place and connection.
- South West Local Learning & Employment Network (SWLLEN) reports that the need to increase educational achievement in the region is a community issue because it is a limiting factor for both the life chances of individuals and the regional economy.

Access to technology

- Colac Otway has the highest proportion of homes without internet connection of all Great South Coast municipalities, 19% below the Victorian average and the lowest in the Barwon South West.
- Growing community demand to communicate with Council via social media.
- Demand for increased online services.
- Access to the National Broadband Network (NBN) is expected to be available in Colac, Colac East and Elliminyt beginning in February 2016 and across the Shire by mid 2016.

Access to diverse housing types

There is a growing demand for different types of residential property within the Shire to meet the needs of different age groups, especially the older section of the population. This will increase over the next five to ten years.

Transport Network

There is increasing pressure and growing need to increase public transport services (bus, rail etc), including:

- Connection with Geelong
- Connection within the Shire e.g. Apollo Bay – Colac
- Within the city of Colac

The potential for significant increases in road freight volumes will impact on liveability and tourism values across the shire. Responses to this may need to include:

- Supporting VicRoads to develop an alternate truck route for Colac
- Improved pedestrian and cycling infrastructure.

Climate Change

Implications for future planning and development:

- Minimise the impact of human settlement on the environment and protect significant landscapes and natural assets, including the natural functions of the region's waterways, wetlands, riparian areas (on or relating to the banks of a natural watercourse) and floodplains.
- Continued pressure for development along the coast for lifestyle choice and holiday destinations creates environmental and service delivery challenges.
- Development of the area immediately surrounding coastal settlements and further development of existing, old subdivisions will continue to generate policy challenges and can create long-term transport, health service and employment issues.
- Potential need to relocate infrastructure and assets.
- Increase community resilience to extreme climate events such as heatwaves, floods and drought.

Assets – Renewal, Maintenance and New

The challenge of addressing infrastructure assets is multi-faceted dealing with assets that are at the end of their useful life and the need to construct new infrastructure that meets modern service requirements and future demand as population grows. Other issues include:

- Major drainage issues across the Shire.
- Asset renewal, maintenance and provision of new infrastructure. Assets include roads, footpaths, drainage, bridges, public spaces, buildings and recreation facilities.
- The current standards do not meet community expectations.
- There is an unfunded community infrastructure renewal gap.

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.

The challenges facing Colac Otway which are noted above are more than likely to increase as a result of the significant pressures on Council's finances and resources.

It is noted that the uncertainty surrounding the approach to the context of rate capping, it makes it very difficult to quantify the impacts that could arise.

CONTEXT/PURPOSE OF RATE CAPPING

The implementation of rate capping for Victorian Councils has the potential to threaten the delivery of vital services and works to local communities.

It is unclear as to what is the purpose of rate capping:

- What is to be achieved
- What are the issues that exist in the Local Government sector that need to be addressed.
- Were other methods to address these issues explored/considered.

It should also be noted that there is an inherent contradiction that the current process highlights that the ESC have been requested by the State Government to design a system to introduce rate capping as well as a system to work around rate capping.

Notwithstanding the fact that there is a lack of clear information on what will be capped and how the capping will be applied, an estimate of the effects of rate capping shows that Council will be placed in an unsustainable financial position if it continues to rely on rate revenue to fund its operations to the extent that it currently does. The only options to ameliorate this situation are to:

- cut expenditure, and as an inevitable result, reduce service levels; or
- increase funding from alternative sources.

The impacts would be scalable depending on the rationale applied to rate capping. There is the obvious impact which will be the ability for Council to continue business as usual in line with the currently adopted SRP (being aa approximate 6% rate rise per annum). The draft budget for 2015/16 indicates an increase in rates and charges of 4.9%.

In Colac Otway rate capping will very likely limit the ability for Council to continue to provide any services other than those required by legislation thus impacting on some of the most disadvantaged members of our community.

Discussion

In discussing the potential impacts of rate capping on Council it **must** be highlighted that Council has received very little information on how the capping will be applied.

There are a number of alternate methodologies which may potentially have significant effect upon the outcome of capping on Council's rate revenue stream.

It should also be noted that each of the 79 councils in Victoria are different.

The differences include:
- size
- population
- isolation
- road lengths
- services provided

As well as these obvious differences each council also has established a level of rates and charges over time to provide services to their communities.

Applying a standard percentage rate cap to all councils may not be equitable or sustainable for the assessment of future rates and charges.

Rate Capping – Potential Models

Colac Otway seeks clarity on what is to be capped.

The first important uncertainty around the implementation of rate capping is *'What is to be capped'?*

This question can have significant impacts upon Council's rate revenue. The complications that arise from this are:

- **Are the Waste Management Charge and Recycling Charge included in the cap?**

  These are service charges intended to contribute towards the cost to Council of providing specific services, and as such are directly linked to a service provision, unlike rates. If these are covered by the cap, Council may be unable to cover the cost of these services in the future and may be required to reduce the service levels.

- **Is the Municipal Charge included in the cap?**

  The municipal charge by its nature is considered part of the rates calculation so it would seem logical that it would be included. This would prevent Councils from making higher than cap income rises by raising the municipal charge at a level different to general rates. The Local Government Act 1989 requires that the municipal charge cannot be set at any more than 20% of the total of all general rates plus municipal charge. Council currently has the municipal charge set at approximately 10% of the total, so any cap on general rates would effectively apply de facto to the municipal charge for Council.

- **Are other levies charged through rates covered by the cap?**

  There is provision in the Local Government Act for Council to charge certain levies through the rating system under particular circumstances (i.e Economic Development, Tourism, Environmental, etc). There is no information on whether these will be covered by the cap or not. Council does not currently charge any levies so whilst there is no direct impact here for Colac Otway, it would be of interest to Council to know for potential future circumstances.

- **Are Special Charge Schemes covered by the cap?**

There is provision in the Local Government Act for Council to have in place Special Charge Schemes. For Colac Otway these are predominantly utilised for Footpath and Kerb & Channel Schemes.

There is no information on whether these will be covered by the cap or not.

The second and also important question which needs to be answered is:

How will the cap on rates be applied?

This question also has direct consequences on Council's rate revenue stream. At the present there has been no information available to address the following key points:

- **Will the cap be applied to the Rate In Dollar (RID) figure?**

The implication here is that total rate income and rates charged on individual properties will potentially fluctuate for the 'headline rate cap percentage' in a revaluation year. For example if the general value of a property increases, then the percentage increase in the amount of rates payable by that property owner will be greater than the percentage increase in the RID, and vice-versa if the general value of that property decreases.

Whilst this will not be an overly complex or difficult calculation for Council, it may lead to potentially negative perceptions from those property owners.

- **Will the cap be applied to total income raised?**

This in itself is probably the simplest option for applying the rate cap as it basically mirrors the procedure Council currently undertakes for setting rate levels. This involves calculating a desired overall revenue level (via applying a % increase) and then deriving the RID charged by allocating the overall revenue amount to each rating differential by number of properties and total valuation.

The potential negative here again is in the fact that in a revaluation year most properties will have a differing percentage increase/decrease than that which is advertised.

- **Will the cap be applied to individual properties?**

This refers to the possibility that the cap may apply in such a manner that no individual property may have a rate increase over the advertised percentage, regardless of revaluation effects.

This will prove to be quite problematic as it will be extremely labour intensive in identifying the percentage change in rates for each rateable assessment (currently 14,923 across Council) and then manually applying a rebate to each property which has an increase greater than the advertised cap percentage.

This option would most likely also have the effect of decreasing Council's overall rate revenue increase to below that of the cap (especially in a revaluation), as those individual properties who would otherwise receive a higher than advertised percentage increase will be reduced to the cap, whereas the assumption is that those properties which receive a lower than advertised percentage increase would not be increased to the cap percentage.

Potential Impacts for Colac Otway

Colac Otway's Reliance on Rates and Charges

The following table provides details of the breakdown of Council's Income over the period 2004-05 to 2014-15.

As can be seen by the income figures for the 11 year period 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).

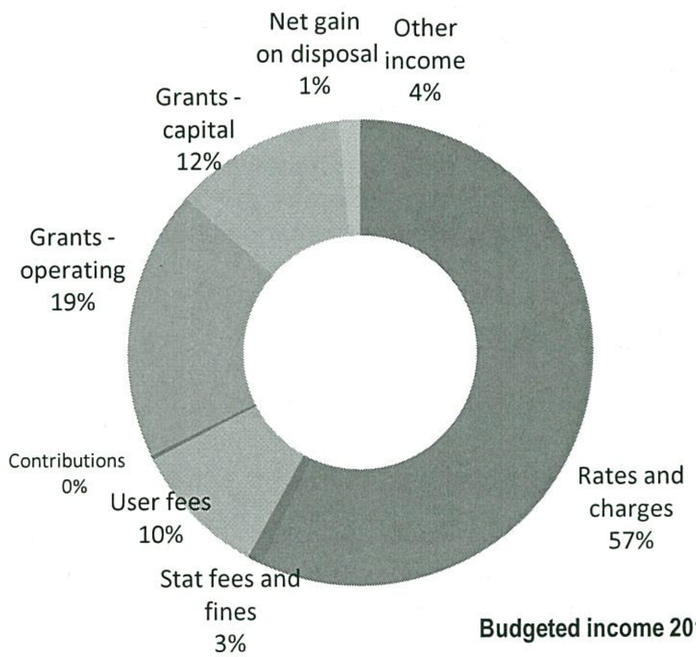
With a reduction in other forms of revenue Council has relied more and more on rate revenue.

Rate capping will place significant pressures on Council's main source of revenue.

BREAKDOWN OF INCOME % 2004-05 to 2014-15							
		Rates & Charges %	Grants %	Fees & Charges %	Reimb. & Contrib. (cash) %	Interest %	Other %
2004-2005		39.4	30.1	13.1	5.3	1.2	10.9
2005-2006		42.5	37.2	11.9	3.5	1.5	3.4
2006-2007		46.4	30.3	11.5	2.4	1.5	7.9
2007-2008		49.7	32.8	10.9	3.5	1.8	1.3
2008-2009		46.6	34.6	10.2	1.6	1.1	5.9
2009-2010		46.8	30.9	10.8	6.3	1.2	4.0
2010-2011		50.0	35.0	9.1	1.6	1.4	2.9
2011-2012		50.0	36.3	9.3	1.6	1.4	1.4
2012-2013		52.4	34.2	9.8	1.4	1.1	1.1
2013-2014		57.0	31.1	9.1	1.0	1.3	0.5
2014-2015 (forecast)		54.2	34.2	8.6	1.5	1.0	0.5

The following pie diagram is taken from Council Draft Budget for 2015-16 which highlights in a diagrammatic form council's reliance on rates and charges.

For 2015-16 the estimated percentage of total income from rates and charges is 57%.



Budgeted income 2015/16

STRATEGIC RESOURCE PLAN (SRP) 2014-2015 to 2017-18

A Strategic Resource Plan is a requirement under the Local Government Act 1989 for Council's to prepare and include in their Council Plan.

The Strategic Resource Plan is prepared in conjunction with the Council Plan to reflect the financial and non-financial resources required to achieve the strategic objectives included in the Council Plan.

The purpose of the Strategic Resource Plan is to:

- Establish a framework to manage the resources required to achieve the strategic objectives as expressed in the Council Plan;
- Provide an assessment of the resources required to achieve the strategic objectives of the Council Plan;
- Plan for the long-term financial sustainability of the Council;
- Establish a basis to measure Council's adherence to the principles of the Strategic Resource Plan; and
- Assist the Council to comply with sound financial management principles in accordance with the Act.

In preparing the SRP key questions are considered.

- Is sufficient revenue being generated to provide the services and level of service required by its community?
- Is the condition of existing assets providing an acceptable level of service to the community?
- What level of funding is required to upgrade existing assets or construct new assets?
- When should debt be used to fund capital projects?
- What is an acceptable rate and charge increase?

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. This was to achieve 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;
- Maintain debt levels below prudential guidelines;
- Continue to pursue ongoing grant funding for strategic capital funds from the state and federal government;
- 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; and
- Ensure critical renewal is funded annually over the timeframe of the SRP.

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

Some basic modelling with some scenarios has been prepared showing the current Strategic Resource Plan (SRP) and Long Term Financial Plan (LTFP) model results for rate rises at

5.1% for the first four years (to 30 June 2019) and 6.1% for the remaining six years (to 30 June 2025), and comparing this to an estimate of rate rises at 2.0% per annum for 10 years, 2.75% per annum for ten years, and 3.5% per annum for 10 years. The parameters for this were:

- Capping only applies to rates (including municipal charge)
- Capping is applied using the total rate revenue methodology
- Waste Management and Recycling charges indexed at 5.0% per annum
- Financial Assistance Grants frozen
- Other grants indexed at 2.5% per annum
- Only guaranteed secure capital grants included (Roads to Recovery)
- Assumption that all other capital expenditure will be funded internally
- No additional borrowings
- The $1 million bond taken out through the Local Government Funding Vehicle will be rolled over and continued.

The analysis shows that Council will lose a significant amount of cash over the 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.

This clearly puts Council in an unsustainable position. Council estimates that a cash 'floor' level of approximately $4.5 million must be maintained to cover employee entitlement requirements.

The estimated cash and operating position of Council will under each model be as follows:

	Current	2.0% rise	2.75% rise	3.50% rise
Cash position at 30 June 2025	$5.56 million	- $0.05 million	-$0.04 million	-$0.029 million
Operating Result at 30 June 2025	-$0.002 million	-$0.125 million	-$0.100 million	-$0.08 million

As can be seen, Council was anticipating that even with 5.1%-6.1% rate rises; we would incur a significant decline in cash over the next ten years (barring any grant increases). With the move to rate capping this will be greatly exacerbated. This highlights Council's dependency upon rate revenue as a funding source.

Council could experience an $8 million impact to its cash reserves in 2025-26 as a direct result of rate capping. It is important to realise what this means – in 2025-26 Council will be at least $8 million worse off **in that year.** In the previous year Council would be approximately $7.9 million worse off **in that year,** and so on back to the first year of rate capping where Council would be approximately $1 million worse off.

In fact the cumulative effect of rate capping over the ten years is that Council could lose up to $35 million in revenue (i.e the additions of each year's losses).

EXTERNAL IMPACTS ON COUNCIL FUNCTIONS

The following information provides details of some external impacts on Council's functions:

- Federal Government Grants
- State Government Grants
  - Library Services
  - Roads and Bridges
  - Other Services
  - Health and Community Services
- Fees and Charges
- Wages
- Defined Benefits Superannuation Shortfall
- Political Landscape
- Legislative Changes
- Records Management
- Domestic Wastewater Management Plan
- Other Costs impacting on Facilities
- Cost Shifting

Federal Government Grants

Grants from Federal and State Governments have varied over the period 2004-2005 to 2014-2015. This is impacted by projects that have received grants in a particular year.

The federal budget for 2014-15 announced that Financial Assistance Grants to Local Government will be frozen for the next three years.

Colac Otway's loss of revenue amounted to $112,000 in 2014-15. (this equates to approximately 0.5% of rate value).

The reduction in this first year meant a number of planned projects were either reduced or deferred. The flow on effects into future years will be greater as cost increases place greater pressure upon Council's financial resources. This reduction must be considered in light of Council's balancing of service provision with its capacity to raise funds from other sources.

In February 2015, the Victorian Auditor General tabled a Report to Parliament on Local Government: Results of the 2013-14 Audits.

The report notes on page 17:

"While the re-phasing of financial assistance grants has impacted the current year's results for some local councils, the Commonwealth's decision to pause indexation of financial assistance grants will have a greater impact on small and large shire councils that rely on Commonwealth grant funding to support their operations. These shires will need to monitor, control and constrain expenditure growth if grant revenue is unlikely to increase in the foreseeable future."

It should be noted that core financial assistance has declined from 1.2 per cent of Commonwealth revenue in 1993-94 to 0.59 per cent in 2013-14. Government grants are usually indexed to CPI or less, meaning that grants are lower than actual cost movements to deliver the service, leaving councils to fund the gap from rates revenue. In a number of services that Council delivers, Government grants are increased by CPI or less each year.

State Government Grants

The following provides examples of where there is pressure on Council's budget both from the community's expectation as well as less funds from State Government.

Library Services

The level of state funding as a proportion of total revenue for 2015/16 is forecast to be at approximately 26%. This is an example of where State Funding has not kept pace with what is required to deliver improved services.

Over a number of years the % has continued to reduce. In 2000/01 the % was 40.7%. In 2005/06 the % was 34.4%.

As indicated above 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.

This is an example of where State Funding has not kept pace with what is required to deliver improved services.

Any reductions impact on the level of service currently provided even though Library services are seen as a vital service.

"Today's public library brings people together; it removes isolation; it fosters social inclusion; and it creates strong and connected communities.
It plays a pivotal role in lifelong learning, literacy and knowledge creation and, through this, will contribute to the development of self-reliant communities."

Review of Victorian Public Libraries Stage 1 Report – December 2012

Roads and Bridges

Over a four year period 2011/12 to 2014/15 Council's in rural Victoria received a $1m a year for roads and bridges. This enabled Colac Otway to put significant funding into its bridges. It had been identified that many of Council's bridges needed to be replaced or have significant maintenance undertaken.

This funding is now no longer available under the Labour State Government. This will place additional pressure on Council's resources.

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.

Health and Community Services

In general the level and capacity of health and community services would be impacted by rate capping. Our community faces many challenges such as multiple vulnerabilities, family violence, low education attainment, and an ageing population.

It is clear within government legislation such as the Local Government Act and the Public Health and Wellbeing Act that Council has multiple responsibilities towards its communities. These responsibilities are not well quantified and left to local governments' to undertake what they can, which is generally linked to capacity.

Council already limits the expenditure on Health and Community Services as it has many other competing priorities for funds. Council does not have a youth department, community development teams, and social and planning units.

With rate capping it will be very difficult to retain even our current modest level of services.

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.

It is also noted that many of the fees applied for planning permit applications and subdivisions are set by State regulations and have not increased for many years.

Wages

In all Councils the level of wage increases provided through an Enterprise Agreement are currently over and above the CPI which has resulted in the need to continually review services to ensure that Council's contribution remains affordable.

Defined Benefits Superannuation Shortfall

LASF was established by an Act of Parliament in 1947 to provide superannuation to Victorian local government and the water industry. The defined benefit scheme was set up by the Victorian Government in 1982 and was compulsory for all councils until it was closed to new members in 1993.

Councils were amalgamated by the Kennett Government in 1994, and in 1998 State legislation governing LASF was repealed and responsibilities were transferred to the Commonwealth. At this time, authorities (including councils and other employers) were required to sign a legal agreement to continue funding benefits for staff who were members of the Defined Benefit Plan as at 31 December 1993.

The LASF Defined Benefit Plan became a 'regulated fund' under Commonwealth legislation on 1 July 1998, which required it to be fully funded. Prior to this date it was exempt from being fully funded, and other public sector (state and federal government) defined benefit super schemes continue to be exempt up to this day.

In accordance with Commonwealth regulations, Vision Super must complete an actuarial review at least every three years to ensure that current assets are adequate to meet the benefits previously promised to members now and into the future. If a shortfall arises that cannot be addressed through an investment plan, then employers may be required to make top-up contributions. Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future.

Since 1998 local councils in Victoria have been severely impacted by the four calls on Councils to fully fund the liabilities of the Defined Benefits Scheme.

The total of the four calls has meant that Local Councils have had to find $1.162 billion to fully fund the scheme. As a result of these calls:

- rates have been higher than they would have otherwise in order to meet this liability
- cash reserves have been drawn on which has placed pressure on Council's balance sheet
- additional borrowings have been taken out
- capital and other works have been deferred or reduced.

Year	Amount of Call $	Contributions Tax $	Total $
2011	453,000,000	79,954,500	532,954,500
2010	87,000,000	15,355,500	102,355,500
2002	127,000,000	22,415,500	149,415,500
1998	321,000,000	56,656,500	377,656,500
TOTAL	**$ 988,000,000**	**$ 174,382,000**	**$ 1,162,382,000**

There have been significant differences in the way that levels of Government have had to deal with the funding of the Defined Benefit unfunded liability.

This is inconsistent with other levels of governments where they are not required to fund their schemes. The Victorian State Government at 30 June 2012 had an unfunded liability of

$32.5 billion while estimates of the unfunded Commonwealth defined benefits liability are over $80 billion.

It should be noted that it is expected that Councils will receive further calls over the life of the scheme. Any future calls will further impact Councils. The implementation of rate capping will place further pressures on Council's finances.

The differences in requirements should be further investigated and options to remove the requirement to ensure full funding. This would return the LASF Defined Benefit Plan to an equal footing with other exempt public sector schemes. This outcome will require support from both the Victorian and Australian Government's to repeal the federal legislation and introduce state legislation to give effect to this change.

Political Landscape

The political landscape is different across Victoria. In some cases the funds provided by the State and Federal Governments are linked to political opportunity. As Colac Otway is not located in a marginal electorate, funding is further limited.

Legislative Changes

A number of legislative changes have and are impacting on Local Government.

Some examples include: e.g.:

- Impacts of Local Government Performance Reporting Framework
- Tobacco Legislation Enforcement
- Animal Management compliance
- Waste landfill requirements
- Fire Services Levy

All of these create costs for Local Government with no opportunities to gain additional revenue. Many of these changes are also implemented with little consultation.

Records Management

Council has recently prepared a Records Management Strategy.

The strategy notes that over the last few years, a number of changes in the business and regulatory environment have also significantly impacted current practices and processes.

These changes include:

- **Strategic approach supported by senior management**

  The Auditor General's review of recordkeeping in public sector agencies (including local government) in 2008 which identified that:

  > *"Most agencies did not adopt a strategic approach to records management, which poses a significant organisational challenge … they have not established comprehensive frameworks to manage their records … more support is required from senior management."*

- **Standards-based management frameworks**

  The Public Records Office of Victoria (PROV) issued a comprehensive suite of new standards in 2011, which now prescribe 214 compliance measures compared to 5 in 1997.

- **Accountability for providing records to the public**

  A review of the *Freedom of Information Act 1982* and the appointment of an FOI Commissioner have resulted in council's being more accountable for the records they keep and make available to the public.

- **Staff expectations for mobile workplaces**

  Staff expectations to work in a mobile, electronic environment have increased with the widespread use of mobile technology.

- **Increased penalties for non-compliance**

  Pending changes to the *Public Records Act 1973* include more non-compliance penalties.

Domestic Wastewater Management Plan

Colac Otway is currently in the process of developing a Domestic Wastewater Management Plan (DWMP).

One of the key drivers for the development of the plan is the need for Council to meet the requirements of the SEPP (Waters of Victoria) and the 2012 State Ministerial Guidelines, which relate to protection of waterways and water quality.

SEPP (Waters of Victoria) requires municipal Councils to develop and implement a domestic wastewater management plan, in conjunction with water authorities and communities, that:

a) *reviews land capability assessments and available domestic wastewater management options to prevent the discharge of wastewater beyond allotment boundaries and prevent impacts on groundwater beneficial uses;*
b) *identifies the preferred options, together with costs, funding needs, timelines and priorities; and*
c) *provides for the assessment of compliance of on-site domestic wastewater systems with permit conditions.*

Colac Otway is required to undertake extensive and costly work to develop, implement and enforce State Government requirements.

Other Costs impacting on Facilities

Colac Otway is fortunate to have two excellent facilities in the Bluewater Fitness Centre (BWFC) (including pool) and the Colac Otways Performing Arts & Cultural Centre (COPACC).

Both facilities BWFC and COPACC provide significant benefits to our community however are resource intensive and therefore heavily subsidised by Council.

- Bluewater operates in accordance with the Guidelines for Safe Pool Operation (Royal Life Saving Society of Victoria) which requires a certain level of qualified staff at the centre at all times. Employee costs equate to approximately **70%** of the total annual cost to Bluewater.
- The facilities/services are heavily subsidised by Council, with fees and charges only increasing by minimal amounts annually eg: CPI. Therefore the gap, or the cost to Council, continues to increase.
- As large regional facilities, another major cost to COPACC and Bluewater are utility charges. Such costs have increased significantly in recent years, much greater than CPI. Again, the cost to Council continues to increase.

Cost Shifting

The House Of Representatives Standing Committee on Economics, Finance and Public Administration conducted an Inquiry into Cost Shifting onto Local Government.
In February 2003 the Committee reported to the Commonwealth Parliament:

> *"3.10 The submissions make a strong case that there has been cost shifting from the States and the Commonwealth to local government.*
>
> *States (and to a lesser extent the Commonwealth) have legislated for local government to assume additional responsibilities, or changed regulatory frameworks in such a way as to impose additional costs on councils, without providing matching resources.*
>
> *3.26 if resources have to be diverted from vital activities such as infrastructure maintenance to support previously Commonwealth or State funded programs, then perhaps councils should simply say no."*

The State Government should consider the impact of compliance and administrative burden in delivering public programs involving local government agencies in service delivery role i.e., State government should also invest in a genuine process of reducing administrative and compliance burden associated with its policies and programs in order to reduce the impact of rate capping on local government agencies.

The following provides details of a number of Council's services that have been impacted by cost shifting and additional reporting requirements.

Waste Management

Higher standards of landfill operations are having an impact on Councils. The trend indicates that the waste disposal gate fee has been increasing at a rate of approximately 15% per year. This not only affects the kerbside budget but also Council waste and litter disposal costs. These costs are unavoidable and will still need to be paid when rate capping is implemented.

The Landfill Levy implemented by the State Government has increased from $7 per tonne in 2009 to $29.30 per tonne for the rural landfill sites. This has had a significant impact on Council rates and the annual waste charge. This will not only affect the kerbside budget but also Council waste and litter disposal costs. These costs are unavoidable and will still need to be paid when rate capping is implemented.

Many of the contracts including the waste contract involve transportation which is affected by fuel costs. These costs are highly variable and impacted by international factors as well as the rise and fall of the Australian Dollar which are outside Council's control. Council's rate has to be responsive to the variable fuel price on a year to year forecast basis.

Landfill Rehabilitation

Landfill Rehabilitation standards have been raised for the benefit of a better and safer environment in accordance to EPA Best Practice Environmental Management Guidelines. Therefore the cost of rehabilitation of operational and closed landfill sites has increased dramatically.

EPA landfill licence reform has resulted in greater landfill monitoring and the need for the appointment of an independent auditor which has resulted in a significant increase in landfill environmental monitoring costs.

Home and Community Care (HACC)

A number of recent changes have occurred in the HACC areas which have impacted on the ability to deliver the service:

- Increased reporting requirements to satisfy State and Commonwealth are time consuming as they require large sections of data in a different way to our financial reporting systems.
- Increase in Compliance and Auditing requirements for most services. The Older Persons and Support Services Unit at Colac Otway has been audited 3 times in the past 18 months by 3 different funding bodies.
- An increase in the hourly rate funding but decrease of hours, with the expectation that Council covers the difference to ensure no reduction in service.

National Disability Insurance Scheme (NDIS)

The implementation of the National Disability Insurance Scheme (NDIS) has resulted in a significant increase in administration resources for the trial as well as an inappropriate reduction of payment for services due to an In-Kind Agreement between State and Commonwealth Governments.

Maternal & Child Health

Additional requirements have been imposed on the Maternal and Child Health Service such as Out-of Home-Care.

Out of home care is for the placement of children away from their parents, due to concern that they are at risk of significant harm.

The purpose of out of home care is to provide children who are unable to live at home due to significant risk of harm, with a placement, which ensures their safety and healthy development and achieves stability.

This has placed significant pressure on existing services due to the requirements to meet the number of requests received for out of home care.

Apollo Bay Harbour

Currently Council is managing the Apollo Bay Harbour. The annual budget allocation from State Government has already been capped over the past three years. The capping does not allow for wages increases as per Council's enterprise agreement and increases in the costs of materials. Due to this there is an impact on the extent of asset upgrade works. Whilst basic maintenance is being carried out, upgrade works have had to be reduced and should this continue then the condition of the assets will deteriorate.

Recreation Reserves

In Colac Otway many of our recreation reserves are Crown land managed either by Council or a delegated Committee of Management. The State Government historically has not funded these reserves for maintenance, renewal or capital improvements.

Committees of Management and/or reserve user groups rely on Council to fund works, or they alternatively apply for funding through extremely competitive government funding programs to fund improvements.

The funding available in relevant State Government funding programs has remained stagnant or decreased over time. This means that the programs are more competitive and fewer projects are securing funding. The result is that there is an increasing community reliance on local government to improve facilities to meet their needs.

This fact is comparable to public halls, particularly in regional areas.

Events

In regards to events, VicRoads have discontinued providing advice and guidance to event organisers regarding signs on major roads (eg: the entrance to Colac – VicRoads road). Effectively this means that they are shifting responsibility of enforcement back to Council. It is not our road and therefore should not be Council's responsibility.

Environment

The Environment area of Council has had to take on more work over the past ten years due to the complexity of interpreting the State Government's native vegetation regulations and this has been compounded by a concurrent reduction in the number of State Government Biodiversity officers at the local level to help provide Council's environment officers with direction on the interpretation of State Government policy.

Likewise weed control on public and private land continues to become a larger problem as the number of State Government Pest Plant and Animal Officers continues to drop. While Council is committed to strategically managing weeds on our land the lack of resourcing by the State Government is resulting in the proliferation of weeds on both private and Crown land. This makes the job for managing weeds on Council land more difficult and more costly. This is particularly true on roadsides where the legal responsibility for weed control remains a grey area in the long term and Council cannot be expected to take on the substantial financial burden of controlling all roadside weeds without getting more funding from the State Government.

Fire and Emergency Management

The Fire and Emergency Management area of Council has grown substantially since the 2009 bushfires. Changes to legislation and policies that resulted from the Bushfire Royal Commission has required Council to commit substantial resources. For example investigating, establishing and maintaining Neighbourhood Safer Places. While the State Government has provided financial support through the Municipal Emergency Management Resourcing Program this funding is not ongoing and when it ends Council will be expected to maintain the service levels in this very important area.

Local Laws

The Local Laws area of Council is responsible for implementing the Domestic Animal Management Plan that is developed by Council as a requirement of State legislation. As a result of more stringent measures being instituted by the State Government for dangerous dogs and animal breeding facilities Domestic Animal Management Plans are becoming complex and costly to implement.

While the changes are supported in principle Council does not receive any extra resources to help administer and enforce the changes. This problem is compounded by the fact that there has been reduction in the number of staff at the Bureau for Animal Welfare.

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.

COST OF COUNCIL'S FUNCTIONS – LOCAL GOVERNMENT COST INDEX vs CPI

It needs to noted that the CPI is not a measure of the costs of Councils providing services or assets to residents.

Research undertaken by the MAV indicates that local government costs typically increase by around one per cent above the consumer price index (CPI).

The following is taken from Municipal Association of Victoria (MAV) Information on rating and valuations – 5 July 2014.

2014 Local Government Cost Index

The MAV Local Government Cost Index is a CPI comparison that forecasts the change in costs to deliver goods and services provided by Victorian local government.

Over the past five years, the MAV Local Government Cost Index has been:

Year	***LG Cost Index***
2014	*3.4%(estimated)*
2013	*3.4%*
2012	*3.9%*
2011	*3.5%*
2010	*3.4%*

The Local Government Cost Index does not take into account growth in service delivery, any change in the type or mix of services to be provided, or other cost pressures facing a council.

The LG Cost Index identifies the forecast increase in costs for a council to deliver the same level and range of services as the previous year – or the change in costs to maintain the status quo.

LG Cost Index vs CPI

Local government expenses are different to household expenses.

The Consumer Price Index (CPI) measures price movements in a standard basket of common household goods and services. A 'basket' of common council services is primarily affected by the growth in construction, material and wage costs, not CPI.

A majority of council spending is targeted towards maintaining and renewing more than $73 billion worth of community infrastructure such as roads, bridges, sporting facilities and buildings; as well as delivering human services such as aged care programs, maternal and child health, and child care to communities.

The expenses of staff and contractors to deliver human-based services; and staff and materials needed to construct, maintain and upgrade assets and infrastructure means that local government costs are significantly affected by the Wage Price Index (WPI) and Australian Construction Industry Forum (ACIF) forecasts.

This means that council costs are substantially different to a basket of common household goods and services.

The LG Cost Index uses a combination of established Government and industry indexes to reflect average wages, construction and materials costs that best represent councils' spending profile

It should also be noted that the Australian Bureau of Statistics (ABS) has stated in writing that the CPI does not reflect the costs of organisations such as councils.

The ABS states:

> *"A consumer price index measures the change in the prices paid by households for goods and services to consume. All expenditures by businesses and expenditures by households for investment purposes, are out of scope of a consumer price index."*

It is important that in any consideration of rate capping that it is recognised that the CPI is not a measure of Councils' costs of performing their functions.

As part of the development of options for Rate Capping a different index other than CPI needs to be developed.

RATING AND VALUATIONS

Property Taxation

The following is taken from Municipal Association of Victoria (MAV) Information on rating on valuations – 5 July 2014 which provides details on a number of issues that are relevant to the Rate Capping Issues.

Property Valuations

Biennial Property Valuations

Victoria has more than 2.6 million properties valued at $1.26 trillion. Local government uses property values to apportion the council rates payable for each individual property.

As property values change, a council must periodically reassess the valuation of all properties within its municipality. A valuation determines the market value of a property, at a specific date and in accordance with relevant legislation and legal precedent.

All Victorian properties underwent valuations on the prescribed date of 1 January 2014. To work out how much each property is worth, council valuers analyse property sales and rental data trends, as well as consider other factors such as the highest and best use of the land; house value and other site improvements; and land shape, size and location.

Each council uses this valuation data to apportion the amount of rates to be paid by each property owner in the 2014-15 and 2015-16 financial years. The next valuations are due on 1 January 2016.

Up-to-date valuations are critical for ensuring property owners pay a fair and equitable share of rates. Two-yearly revaluations assist in delivering rating equity by redistributing the rate burden within a municipality according to property price movements.

Revaluation Facts VS Myths

- ***FACT:*** *Councils use property valuations to determine how much each ratepayer will pay in rates*
- ***MYTH:*** *Councils do not generate extra revenue as property values increase or are revalued.*

A council budget determines how much a council collects in rates – property valuations are revenue neutral for councils. Increased property values do not increase the amount of money a council collects in rates - it redistributes the amount of rates paid between individual properties. Some ratepayers will pay more and some will pay less, depending on the new value of their property relative to other properties in their municipality.

Property Taxation System

- *Property taxes (rates) are a wealth tax charged by local government municipalities*
- *Local councils can also apply a municipal charge (of not more than 20 per cent of their total rate revenue); a waste management charge; and other special rates and charges as appropriate within the legislation*
- *Exemptions from rates apply to Crown land, charitable land, land used for religious purposes, and land used exclusively for mining and forestry*
- *Rate revenue comprises 56.3 per cent of Victorian councils' total revenue*
- *Council rates do not represent a direct user pays system because local government provides services and infrastructure for public benefit.*

PRINCIPLE: Those with a higher valued property relative to others within a municipality generally contribute a larger amount in rates.

Rate Process

Once a council has identified the total amount it needs to collect in rates (as determined by its prescribed budget process), rates and charges can be calculated. A council begins its rate process each year by determining any municipal and waste management charges that may be needed to recover part of the administrative cost and the cost of providing waste collection and disposal services respectively.

Once these discretionary charges have been accounted for, a council establishes its rate in the dollar by dividing the balance of required budget revenue by the total value of all rateable properties in the municipality.

The rate in the dollar is then multiplied by the value of a property (using one of three valuation bases) to establish the amount to be paid by each property owner. This amount is known as the general rates. General rates are added to any municipal and waste management charges set by a council to determine the total rates payable on a property.

An increase in property values does not cause a rate rise. Council budgets are pre-determined to meet expenditure requirements, and include any potential rate rise. Property valuations are revenue neutral – they are used to distribute how much each ratepayer will pay, according to the value of their property compared to other properties within the municipality.

It needs to be noted that the next revaluation for all Councils in Victoria is fixed by State legislation for 1 January 2016 and will apply for the first time for the 2016-17 financial year. This will also be the first year of rate capping.

Most properties in 2016-17 will not experience the rate increase as determined through the rate capping process. Some will be higher and some will be lower.

Every 2 years Council's prepare information on the revaluation process to manage expectations.

With the introduction of rate capping this will be even more critical as there will be a clear expectation that rates and charges on individual properties will rise as per the agreed %.

RATE EXEMPTIONS

Section 154 of the Local Government Act prescribes exemptions from paying any rates on the basis of the use of the land.

154. What land is rateable?

(1) Except as provided in this section, all land is rateable.

(2) The following land is not rateable land—

(a) land which is unoccupied and is the property of the Crown or is vested in a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes;

(b) any part of land, if that part—

(i) is vested in or owned by the Crown, a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes; and

(ii) is used exclusively for public or municipal purposes;

(c) any part of land, if that part is used exclusively for charitable purposes;

(d) land which is vested in or held in trust for any religious body and used exclusively—
(i) as a residence of a practising Minister of religion; or

(ii) for the education and training of persons to be Ministers of religion; or

(iii) for both the purposes in sub-paragraphs (i) and (ii);

(e) land which is used exclusively for mining purposes;

(f) land held in trust and used exclusively—

(i) as a club for or a memorial to persons who performed ***service or duty*** *within the meaning of section 3(1) of the* ***Veterans Act 2005****; or*

(ii) as a sub-branch of the Returned Services League of Australia; or

(iii) by the Air Force Association (Victoria Division); or

(iv) by the Australian Legion of Ex-Servicemen and Women (Victorian Branch).

The need to revise the current system was also reinforced by Comrie in a working paper recently published for the Australian Centre of Excellence for Local Government, where he argued that:

"Given that council rates are a tax, it is appropriate that some concessions be available for disadvantaged ratepayers. However, it needs to be borne in mind that local government rates represent only 3.5% of total tax revenue by all Australian governments. Other spheres of government are far better placed to achieve effective income redistribution because they have both more income and a broader base of taxpayers across which to equalise than do individual councils" (2013, p. 37).

The impacts of non-rateable land for Colac Otway are extensive as a large part of the municipality is non-rateable (i.e. Great Otway National Park and State Park) yet users receive the benefit of Council assets and services which are paid for by others.

As a result of the large number of non-rateable properties those who pay rates are paying higher rates than they would otherwise. Colac Otway had 1,093 properties that don't pay rates. Yet a large number of the 1,093 properties are liable to pay a Fire Services Levy which flows to the State Government.

The review of rate capping should be seen as an opportunity to review the current rate exemptions in the *Local Government Act.*

ASSET RENEWAL GAP

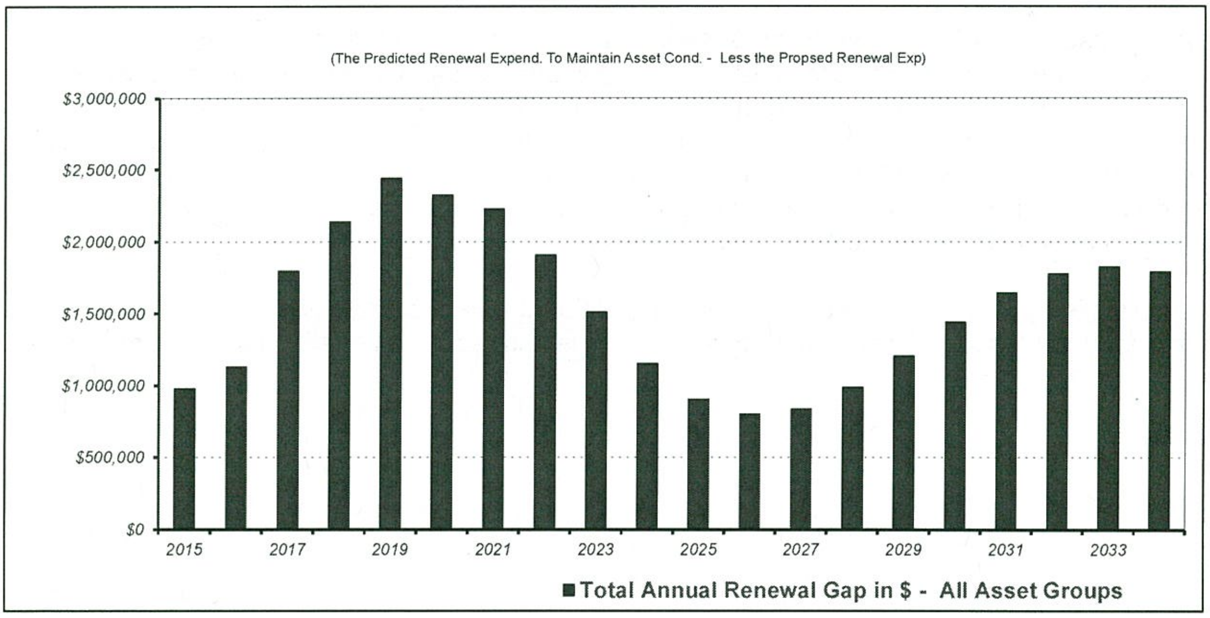
In a report on Asset Management on 19 February 2014 the Auditor General reported to the Parliament:

"*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.

Total Annual Renewal Gap

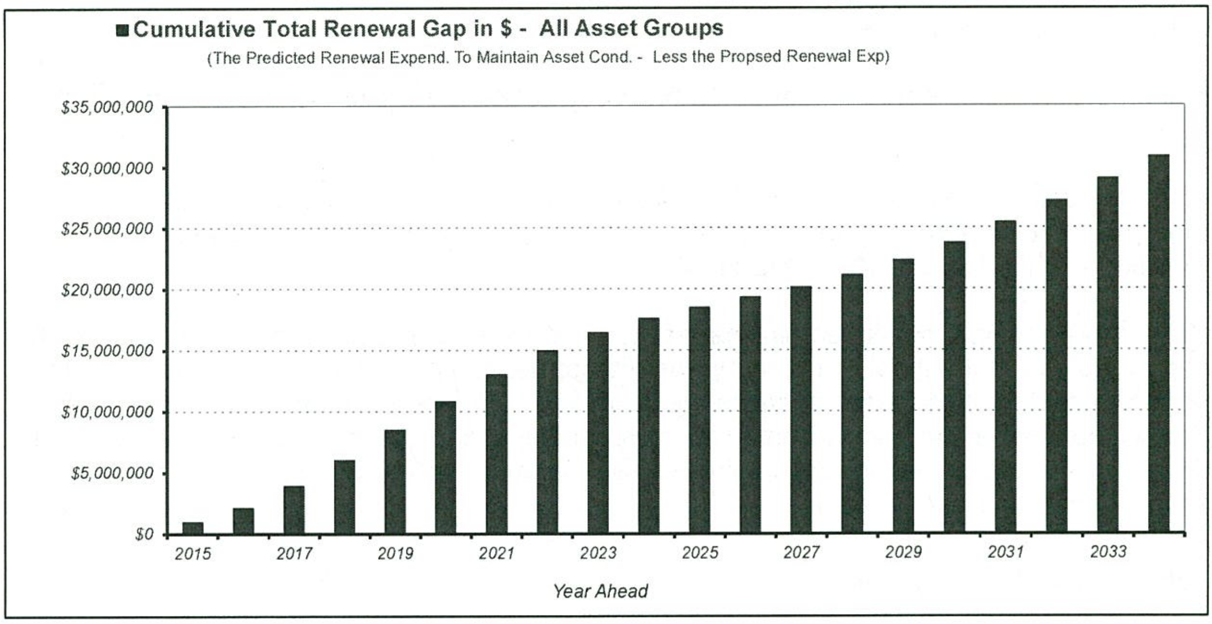
The following graph presents the projections of Council's annual renewal gap over the next twenty (20) years. This is based on the projections of funding dedicated to asset renewal included in Council's Long Term Financial Plan. The majority of Council's renewal funding is drawn from Council's own source funds which are predominantly raised through rates.



The graph indicates 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.

Cumulative Total Renewal Gap

The following graph shows the cumulative impact of Council's annual asset renewal gap. At the end of the twenty (20) year forecast period, the cumulative renewal gap is $30.8M (or approximate average of $1.5M per annum).



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 catastrophic failure and declining customer satisfaction.

With limitations on Council's ability to raise capital funds from rates revenue and the declining financial support from other levels of government as evidenced by the cessation of the Country Roads & Bridges Program and freezing of Federal Assistance Grants, the community will notice a progressive deterioration in the quality and condition of assets such as roads, bridges, footpaths, and buildings. The only means that Council will have to manage this will be to reduce levels of service and to decommission assets which are deemed to be aligned with discretionary services.

As councils have a limited capacity to raise additional revenue, they often use a range of funding options such as rate rises, lower service levels, asset rationalisation and borrowings.

TIMING AND COMMUNICATIONS

Timing

In preparing the draft report to the State Government the Essential Services Commission needs to be cognisant of the timelines required under the *Local Government Act* (the Act) and Council policies.

Councils are required under the Act to give 28 days' public notice of their proposed budgets. Colac Otway requires up to 6 weeks. Therefore Councils commence the preparation of budgets well in advance to enable a draft budget to be advertised in April of each year.

A process to consider applications for increases above CPI or other recommended forms will need to be completed well before Councils complete their Draft budgets. For the 2015/16 Budget Council considered the draft budget at the 22 April Council meeting. Any decision to apply for application of rate increases above CPI will need to be considered well before this time as the Draft Budget will need to reflect any outcomes of applications.

Attention needs to be given to how residents or groups will be able to advocate for their points of view if rates are determined by a body other than the elected council.

If there are provisions for a Council to apply to the ESC for an increase over and above CPI or whatever rate is determined the timelines for submissions need to be made clear as soon as possible.

The ESC will need to advise Local Government on the sequence and timing of its process relative to *the Act* and the requirement for community consultation early in 2016.

Communications

If Rate Capping is introduced it is critical that the State Government has in place a comprehensive communications campaign to help communities understand how the changes will work, and how local government is expected to apply these changes.

It would be expected that the State Government produce web materials, media releases, brochures and posters, not just for their use, but for use by Councils to lessen the impact on Council communication departments and ensure the messaging is consistent.

It is expected that there will be an increased workload for Public Relations areas of councils arising from the issue of rate capping. There will be reactive work – responding to media inquiries, as well as pro-active work – producing communication materials that explain how rate capping will affect our community.

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."

<u>Financial Sustainability Risk Assessment Results 2013/2014</u>

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.*
>
> **RESPONSE provided by the Chief Executive Officer of the Colac Otway Shire Council**
> *Colac Otway Shire has been rated as high risk based on trend data over the past 5 years. However, trend data over the past 2 years and forecasts for the next 3 years clearly indicates that Colac Otway has met and will meet all targets related to the 5 viability measures as a result of strong financial decisions Council has made over the past 3 years.*
>
> *Council's underlying result over the past 5 years has been significantly influenced by one off extraordinary factors such as recognition of landfill rehabilitation costs.*
>
> *Our Strategic Resource Plan indicates that Council will achieve ongoing operational surpluses, achieve asset renewal expenditure targets and continuing reduction in loan liability which ensures the Shire's long term financial viability.*
>
> *Council acknowledges that over the past five years it has operated with a constrained ability to meet the required level of infrastructure spending. With significant growth occurring within urban areas of the Shire, there has been a need to develop new and upgraded community infrastructure whilst trying to maintain existing infrastructure.*

Council has continued to make strong financial decisions. As a result Colac Otway is now categorised as low risk in each of the indicators.

Large Shire Councils – Financial sustainability risk assessment results 2013-14.

The following information is taken from Appendix E of the report.

Underlying Result (%)	
Colac Otway	***4.41%***
Category Average	*3.51%*
Category Risk Assessment	*Low*
Liquidity	
Colac Otway	***1.93***
Category Average	*1.76*
Category Risk Assessment	*Low*
Indebtedness (%)	
Colac Otway	***26.49%***
Category Average	*27.92%*
Category Risk Assessment	*Low*
Self-Financing (%)	
Colac Otway	***34.25%***
Category Average	*20.19%*
Category Risk Assessment	*Low*
Capital Replacement	
Colac Otway	***1.54***
Category Average	*1.46*
Category Risk Assessment	*Medium*
Renewal Gap	
Colac Otway	***1.16***
Category Average	*1.04*
Category Risk Assessment	*Low*

Financial Sustainability

*5 year results 2010 to 2014 for **Colac Otway***

Underlying Result (%) 2010 to 2014		
2010	*5.16*	*(Low)*
2011	*5.54*	*(Low)*
2012	*1.84*	*(Low)*
2013	*3.30*	*(Low)*
2014	*6.20*	*(Low)*
Mean	*4.41*	*(Low)*
Liquidity Ratio 2010 to 2014		
2010	*2.18*	*(Low)*
2011	*2.41*	*(Low)*
2012	*2.73*	*(Low)*
2013	*2.67*	*(Low)*
2014	*1.93*	*(Low)*
Mean	*2.38*	*(Low)*
Indebtedness (%) 2010 to 2014		
2010	*27.07*	*(Low)*
2011	*33.81*	*(Low)*
2012	*39.50*	*(Low)*

2013	*30.32*	*(Low)*
2014	*26.49*	*(Low)*
Mean	*31.44*	*(Low)*

Self-Financing (%) 2010 to 2014

2010	*31.53*	*(Low)*
2011	*30.27*	*(Low)*
2012	*33.15*	*(Low)*
2013	*21.17*	*(Low)*
2014	*34.25*	*(Low)*
Mean	*30.07*	*(Low)*

Capital Replacement (ratio) 2010 to 2014

2010	*1.70*	*(Low)*
2011	*1.58*	*(Low)*
2012	*1.42*	*(Medium)*
2013	*1.32*	*(Medium)*
2014	*1.70*	*(Low)*
Mean	*1.54*	*(Low)*

Renewal Gap (ratio) 2010 to 2014

2010	*1.17*	*(Low)*
2011	*1.19*	*(Low)*
2012	*1.12*	*(Low)*
2013	*0.97*	*(Medium)*
2014	*1.34*	*(Low)*
Mean	*1.16*	*(Low)*

Information taken from Appendix E

It is important to note again the statement from the Victorian Auditor General.

"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."

The impacts of rate capping particularly on small and large shire councils will have significant impacts on Council's ability to maintain the services and infrastructure that they currently provide.

The improvement in Colac Otway Shire's financial position has come about as a strong commitment by Council over a number of years. It will be critical that the improvements are not diminished as a result of the impacts of rate capping.