MOYNE SHIRE

Committee Secretary
Economy and Infrastructure Committee
Parliament of Victoria
Parliament House
Spring Street
East Melbourne, VIC 3002

19 June 2024

Dear Secretary

Re: Shire of Moyne Submission to the Committee Inquiry into Local Government funding and services

Further to the Committee's invitation to receive written submissions by 28 June 2024 from organisations and individuals to provide recommendations relating to any or all of the inquiry's terms of reference into Local Government matters, I attach a submission on behalf of the Shire of Moyne (Victoria).

Should you wish to discuss this matter do not hesitate to contact me.

Yours sincerely

[redacted]

Peter Brown
Acting Chief Executive Officer

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Shire of Moyne Submission to the Committee Inquiry into Local Government funding and services

Background
The Legislative Council of Victoria's Economy and Infrastructure Committee has been required to consider and report on local government funding and service delivery in Victoria, including but not limited to:

- Cost shifting from State and Federal Governments to local councils;
- Ability of local government to meet core service delivery objectives;
- Local government's revenue structure, as well as whether these structures are sustainable and appropriate;
- Whether there are other models of funding to consider.

The Shire of Moyne seeks to bring the following matters to the attention of the Committee.

Executive Summary
It is considered that the less well resourced parts of the Victorian Local Government sector, particularly the rural councils with smaller populations and larger land areas are facing ongoing financial challenges. There are several factors impacting capacity including those summarised below:

- Incremental cost shifting from other levels of government to local government;
- Rural councils with smaller populations bear inequitable burden of road maintenance obligations;
- Rate capping is unfairly impacting on the rate raising capability of rural councils with smaller populations;
- Other potential revenue sources are limited;
- The Grants Commission principle of minimum grants could be regarded as inequitable;
- Given the lack of alternative services or facilities, rural councils are often regarded as the provider of last resort and are required to find ways to maintain a limited (if inequitable) level of service;
- Additional revenue options from renewable energy generation would be very desirable for many rural councils;
- The impact of major weather events is increasing the cost of infrastructure maintenance and this is expected to increase.

It is also considered important to look beyond the immediate financial picture which is presented when analysing councils' financial statements. The impact of including the disproportionately significant value of the infrastructure assets on the balance sheet gives a distorted view of the strength of the councils asset base. These assets are in reality stewardship assets rather than operational assets and are best excluded from any financial assessment. Though including these assets in the balance sheet does help provide an insight into how well a council maintains its infrastructure assets, this assessment is often better performed through regular condition reports.

Cost shifting from State and Federal Governments to local councils
Cost shifting between other levels of Government has been an area concern for many years, but it is often incremental and not generally captured and reported on. The most obvious areas are where the proportion of the subsidy provided to councils relative to costs has declined over time. When these incremental changes are coupled with the unfortunate outcome that annual increase in operating costs are higher than the rate cap can cover, it leads to a progressive reduction in financial sustainability.

An illustrative example from the Shire of Moyne is the annual grant for emergency management planning. Since 2014 the Council has received a grant of $60,000 which has not been indexed, though Councils costs would have increased. If CPI adjustments were taken into account this grant would now amount to approximately $86,000 per annum.

As FinPro has discussed in its submission to this Inquiry, Council's are often the provider of last resort, and in many cases (particularly in the regions), the community expects council to continue to provide costly service as there are no (or few) alternative providers. In the event that the government reduces its proportional financial support for a service, councils consider that they have a community obligation to retain the service (though often in a more limited form) in order to maintain liveability.

Maintenance of liveability in these more remote communities is one of equity and should be regarded as a key service obligation. This however puts additional and unrecognised financial pressure on those Councils.

Ability of local government to meet core service delivery objectives
Core service delivery obligations of local government are not clearly defined, and to some extent, vary from council to council. Once more the position of councils' being the provider of last resort is relevant, particularly in the regions with small communities and a limited rate base. In the less densely populated parts of the Shire of Moyne, child care and aged care support would fall into that category.

Another example from the Shire of Moyne is the provision of swimming facilities to a small population (17,400) distributed across a wide largely inland area (5,478 square kilometres). Swimming pools are costly to run. However, where there is have a large number of users the net costs of the operating the facility can be substantially reduced. In a Council such as Moyne, given the distributed nature of the population, the net cost to Council per user (and per use) is very high. In the smaller towns and villages across rural Victoria the swimming facilities are highly prized as recreational and social centres, and the councils face strong community backlash when/if closure of these facilities are proposed. These assets should be regarded as core service obligations.

The broadly increasing costs to councils are not matched by increasing revenue. The key additional costs councils are facing are due: increased wages (EBA increases are higher than the rate cap increases); increased cost of building and road work materials; increases in the costs from external service providers.

Councils' ability to raise revenue outside of fees and charges is limited, and does not cover the annual increases in costs (see the discussions below on Revenue Structure and Financial Capacity/ Sustainability). The increasing annual net costs to councils are putting in jeopardy their ongoing requirement to meet core service obligations.

Local government's revenue structure

Councils are able to source revenue from a number of different activities. However in most of these rural areas the revenue options are constrained and in many cases the revenue derived from service provision may not even cover all of the direct and indirect costs of operating that service.

Rate capping though an important government policy is not equitable. For example rate capping was applied from level of rating in each council at the date of implementation. Councils that were high rating at that point are still relatively high rating, whilst councils which had more modest rates at that stage have been required to retain their relatively low rating status (eg Shire of Moyne has an average rate of $1,619 per assessment proposed for 2024/25, whilst there are others with up to $2,500 per assessment).

In addition, rate capping has recently been set at a lower level than both inflation and the increases in wages and other costs faced by councils. It is considered appropriate that the method of calculating and applying rate capping be revisited.

Councils being government bodies are not generally as nimble and flexible as the private sector, and therefore are often not sufficiently competitive to generate long term profit outcomes from their more commercial operations. This coupled with the community's expectation to keep rates reduced (in addition to rate capping) means that revenue generation is challenging for councils. Some councils who have a high volume of visitors can raise significant revenue from parking fees and fines, whilst others that operate significant recreation facilities can also generate a high return. However, most councils have more modest opportunities for revenue raising.

Some fees and charges are set by government and in some cases (eg planning fees) only cover a small proportion of Council's operating costs. It is considered that inequitable fee structures should be revisited.

There is inequity contained in Federal Government's Grant Commission allocation, with large well resourced councils still obtaining a minimum allocation, which could be allocated to the cash strapped rural councils.

One sensitive question in some rural councils is their assessment that even though significant renewable energy is being derived from their geographic areas often with a negative amenity impact, the Councils and their communities derive relatively limited benefit from these activities. Wind farms, solar farms, battery storage facilities and transmission are often visually unsightly and largely benefit Melbourne and Victoria, rather providing a commensurate benefit to the local communities that are being impacted. Some form of additional levy on these activities would benefit the local communities and provide the councils with a well needed additional source of revenue.

Is local government's revenue structure sustainable and appropriate
It is considered that the analysis of Local Governments' ongoing financial situation is often obscured by two factors:

a. Many Councils have relatively large cash and investment holdings. However, many of these funds are already committed to a specific purpose, including:
    i. Statutory and other reserves
    ii. Grant funds received in advance, but not yet expended
    iii. Monies contributed by developers to undertake identified works
    iv. Monies set aside to conducted capital works projects which were not completed at the time of reporting.

b. Councils are regarded as having strong balance sheets against which they could borrow to supplement their cash flow. There two aspects which need to be recognised when exploring this matter:
    i. Of the Shire of Moyne's net equity position at 30 June 2023 of $678 million, $660 million comprised infrastructure, property, equipment and plant. Very few of these assets are readily able to be disposed of (Infrastructure amounted to $528 million, whilst buildings amounted to $118 million).
    ii. This means that excluding roads, infrastructure, buildings, equipment and vehicles, the Council has net assets of around $18 million – not a substantial amount.

iii. If the Shire of Moyne was to borrow additional funds this would have a short term effect of bringing forward expenditure, and longer term effect of reduced future expenditure on assets and services as the borrowings would reach a ceiling beyond which the interest costs would make it uneconomic to borrow – in other words this is more likely to hinder ongoing financial sustainability than benefit it.

The State Government considers that the Underlying Surplus/Deficit Result is one of the best representations of a Councils financial sustainability. This accounting approach is to remove any capital grants (which are required to be treated as Income in the Operating Statement) from a councils revenue. The FinPro submission illustrates this growing problem by reporting that the number of councils with an Underlying Deficit for 2022/23 was 37 (out of 76) an increase of 61% from the number reporting an Underlying Deficit four years earlier in 2018/19 (23).

Other related matters

Rural councils like the Shire of Moyne, which have large geographic areas, many kilometres of roads and a low number of ratepayers generally have a large proportion of their annual operating expenditure being allocated to roads and road related expenditure. In the Shire of Moyne the draft 2024/25 budget allocates 12% of operating costs (excluding depreciation) to maintaining roads and bridges, and a significant 38% of the capital budget also goes to that purpose.

Last decade the State Government provided the Shire of Moyne an annual contribution towards local roads. This grant has been discontinued, which has put additional pressure on the Shire's financial situation.

The State Government appears to be reducing proportionally its contribution to maintaining the extensive regional road network. This is resulting in growing community dissatisfaction with the condition of the regional roads. Evidence of this dissatisfaction can be found in the recently released 2024 Community Satisfaction Survey where the category on "maintenance of unsealed roads in your area importance" had a high level of dissatisfaction in the condition of unsealed roads.

It is also considered that with the changes in the environment, there is likely to be an increase in repairs being required for roads and other significant infrastructure, which will add to the pressures on councils' financial sustainability.