SUBMISSION 22
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Attention: **Executive Officer,**

Environment, Natural Resources and Regional Development

Parliament House, Spring St
EAST MELBOURNE VIC 3002

Warrnambool Councils Response to:

The Parliamentary inquiry into the sustainability and operational challenges of Victoria's Rural and Regional Councils

Warrnambool Council remains committed to providing the best quality and value of services and infrastructure to its community and visitors to our city. Warrnambool Council recognises the pressures for resources on all levels of government.

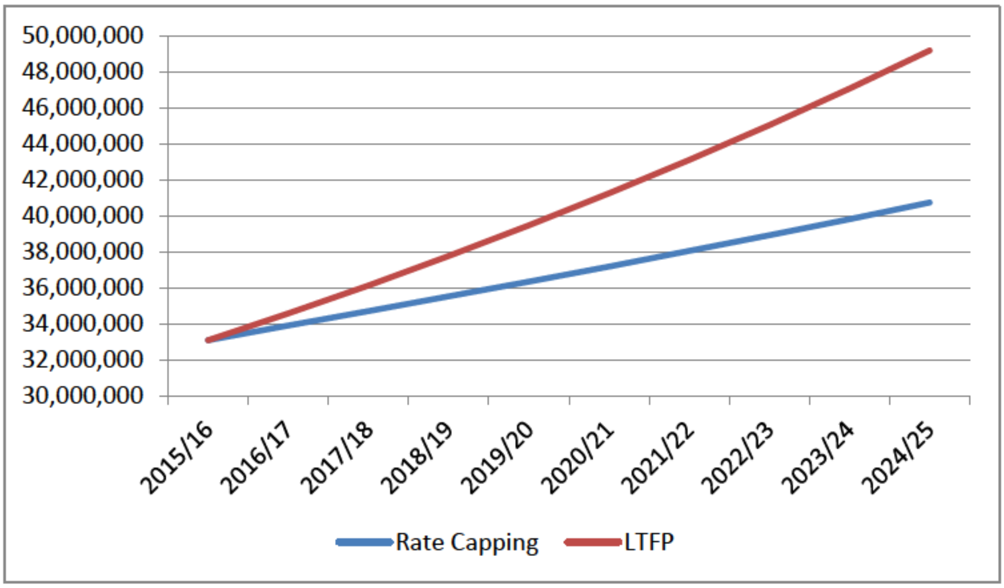
Council continues to work in partnership with all levels of government to achieve the best outcome possible for our community.

A. Local Government Funding Pressure;

Warrnambool City Council is a growing municipality and is in effect the Regional Capital for the South West of Victoria and provides a significant amount of services to residents from other municipalities. It also has a high level of tourism which puts pressure on the City's infrastructure.

The Warrnambool Strategic Resource Plan (SRP) and Long Term Financial Plans (LTFP) had previously projected rate increases of 4.5% with one off additional rate increases to assist with reducing the asset renewal gap.

With the 2016/17 rate cap at 2.5% and an efficiency factor of 0.05% likely to be introduced from 2017/18, this would leave Warrnambool City Council with a shortfall of $38.4m over the previously forecast 10 year LTFP and in the 10th year the annual revenue will be $8.5m less (see graph below).



Based on the declining revenue outlook, Council is looking at a number of initiatives to reduce costs and these include:

- Internal process and systems efficiencies and innovation
- Shared service solutions
- Reviewing levels of subsidies to community groups
- Alternate revenue opportunities and sources
- Reduced wage price pressure in newly negotiated Enterprise Employment Agreements
- Service level reviews

Even with savings through the above measures, Council will still need to make decisions regarding the services we retain and at what service level we can sustainably continue to deliver the service.

Further cuts are likely with a newly estimated SRP forecasting an ongoing 2.5% rate rise but CPI running well under this figure at the moment.

The key driver of this pain is the levels of service and infrastructure that needs to be maintained as regional centre. This situation is a very different experience than either our metropolitan counterparts or even our rural neighbours who face similar but separate pressures.

10 to 20 % of various Warrnambool service utilisations are taken up by Moyne residents.

Council provides a

- Regional arts performing arts centre
- Regional Gallery
- Regional Aquatic Facility
- Regional Stadium
- Regional Sale yards
- Flagstaff Hill Historical maritime village

This regional service provision costs several million dollars in annual operating deficits and the exponentially increased burden on infrastructure replacement costs for these multimillion dollar facilities.

State and federal grants have been very helpful in establishing these facilities but little or no support is forthcoming in their maintenance and operating costs. This is strongly juxtaposed with the ongoing facilities that have a state facility tag.

Equally this burden on operating expenditure is exacerbated by the state-wide and national responsibility that comes from being a major tourism hub in Victoria. Whilst the sustainability of the town is enhance by the visitation Council does not derive direct monetary benefits from this activity. Where a thriving commercial sector can benefit from these economic drivers a cap on rating means there is no direct monetary flow through to the Municipality.

In fact an increase burden is felt on the maintaining a higher level of civic amenity maintaining high quality public recreation spaces like the foreshore and lake Petrobe and adding visitor attraction initiative like fun for kids festival and other major events.

Further councils devotes significant resources advocating on behalf of the region to attract and maintain services from other allied sectors including, Education, Health (both acute and primary care) industry attraction, tourism attraction and support for rural industry and agriculture.

B. Fairness, equity and adequacy of rating Systems;

Fairness

The basis of "Rates" as a form of taxation derives its origins from the (Elizabethan) Poor Relief Act 1601 and is in effect a wealth tax based on property ownership.

Councils are limited to taxing one component of wealth – real property.

The "wealth tax" principle implies that the rates paid are dependent upon the value of a ratepayer's real property and have no correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

The most regular complaint levelled at councils is that "the rates I pay have no correlation with the services I consume or the benefits I receive". This argument is based on the benefit principle (the opposite of the wealth tax principle) that argues there should be a clear nexus between consumption/benefit and the rate burden.

Unless Governments at both Federal and State level are prepared to fund the rates component of Council budgets from other avenues (ie a proportion of the GST) this form of taxation will remain as the only way Councils can fund their annual budgets. The view in respect of its fairness will continue to be debated form many different stand points.

Equity

Equity is a subjective concept that is difficult to define. What is eminently fair for one person may be totally unfair for another. Councils use two main equity concepts to guide the development of their rating strategies as they apply to their individual circumstances:

horizontal equity – ratepayers in similar situations should pay similar amounts

vertical equity – those who are better off should pay more than those worse off

As indicated rates are essentially wealth taxes, determined on the value of property. A pure "wealth tax" approach implies that the rates paid relate directly to the value of a ratepayer's real property. The tests of horizontal and vertical equity in this instance are then solely based on property value.

Concepts such as "user pays" and "capacity to pay" can often be competing principles. Depending on councils viewpoint the equitable outcome may be the one where individuals pay more, or less, or exactly in proportion to, their level of consumption of services.

Difficulty arises where services are fully or partially for public good and it is either difficult or impossible to quantify use or access.

Adequacy

Council believes that rates are quite simple to administer in that they rely on a clear information source (property values) and they place a levy on something that is impossible to conceal (land).

Council is also conscious that rates are levied on unrealised wealth in the form of property and their nexus with ratepayers' capacity to pay may be tenuous – in other words ratepayers may be asset rich but cash poor. Council however believes is has been provided with a number of methods within the current

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legislation that allow them to address the capacity to pay issue to varying degrees, including differential rates, waivers and deferrals.

C. Impact of rate capping policies;

The use of CPI as the basis for the cap, whilst simple and easy to convey, is not an accurate reflection of the cost of doing business in local government.

CPI is a measure of the price increases in a range of household expenditure items.

The major cost driver for Council's budget is labour (currently averaging just under 3% per annum on a baseline annual cost of $30m) and other items such as concrete supplies, building materials, road making materials, waste disposal costs, chemicals, traffic management, plumbing & electrical services and supplies, etc. The cost of these items is generally, increasing at a rate well in excess of CPI.

Given that rates subsidise the wide range of services that council's provide to the community it would seem reasonable for the income to move in accordance with the major cost drivers of the business.

The Municipal Association of Victoria has previously produced a cost index for local government and our view is that this type of index is a much more appropriate index to use as the basis for the cap as it more accurately reflects the cost drivers in local government. Perhaps the index could be constructed by an independent organisation.

Cost shifting and real reductions in government grants also contribute to local government footing the bill for a greater share of a wide range of partially funded services or expenditure programs.

Some examples of costing shifting include:

Cost Shifting for Specific Services

Examples:

- Home and Community Care (HACC) - $180,000 from 2011/12 to 2015/16
- Library Services - $126,000 from 2011/12 to 2015/16
- Maternal and Child Health - $106,000 from 2011/12 to 2015/16
- School Crossing Supervision - $87,000 from 2011/12 to 2015/16

Loss of funding in General

Example:

- A freeze on indexation of the federal financial assistance grants. The Commonwealth announced in its 2014-15 Budget that it will pause indexation of the total national pool of financial assistance grants to local government for three years (2014-15, 2015-16, 2016-17). The cumulative impact on Warrnambool City Council for the three years totals $600,000.

Statutory fees that prohibits full cost recovery

Example:

- Planning fees (set by the State and have been frozen for most of the past 14 years)

Imposition of levies

Example:

- State Government landfill levy. The levy has increased from $9 per tonne in 2008/09 to $60.52 per tonne in 2016/17. The increase from 2015/16 to 2016/17 is 3.3%.

D. Capacity for rural and regional Councils to meet responsibilities for flood planning and preparation, and maintenance of flood mitigation infrastructure;

Within the last 18 months Warrnambool Council has needed to commit to a 6 Million dollar major storm water drain refurbishment and a 3 million dollar flood mitigation project which would equate to the absorption or redirection valued at approximately 25% of the our annual rate revenue. Council has received 2 million in State government funding to offset this major capital cost in an environment of a 2.5% capped rate.

E. Maintenance of local road and bridge networks;

No submission made to item E at this time

F. Weed and pest control;

No submission made to item F at this time

Yours Sincerely

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