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**CORANGAMITE
SHIRE**

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28 June 2017

The Executive Officer
Environment, Natural Resources and Regional Development Committee
Parliament House, Spring Street,
EAST MELBOURNE VIC 3002

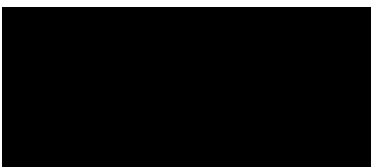
Corangamite Shire welcomes the opportunity to provide comments in relation to the Parliamentary Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils. Council considered the inquiry's Terms of Reference at its Ordinary meeting on 27 June 2017 and resolved to lodge this submission.

Corangamite Shire has a population of 16,051 with approximately 9,600 rate payers. The economy is predominantly agriculture with a growing visitor economy, three on-shore gas processes and a number of dairy processes. Council's rate base has been stable for a long period with projected future growth in rate income limited at this stage. Accordingly, Council is highly reliant on external grant income to maintain its infrastructure and provide an appropriate level of services.

Council's financial sustainability indicators are strong when compared to other rural shires. Through the leadership of current and successive Councillors and a long-term commitment to financial sustainability, Council has been able to absorb recent financial challenges including the introduction of rate capping, increased State Government cost shifting, defined benefit fund calls and a measurable reduction in State Government grants, such as the Country Roads and Bridges program. With continuing external pressures, for example, the likely introduction of annual property valuations, the long-term sustainability of Corangamite Shire is at risk.

Thank you for the opportunity to make this submission. Council's response to the Terms of Reference is attached. Should you require further clarification on the matters raised in this submission please contact me on 5593 7100.

Yours sincerely



Andrew Mason
Chief Executive Officer

Local government funding and budgetary pressures

Rural councils, such as Corangamite Shire, are under increasing financial pressure to deliver more services with fewer resources. Both revenue and expenditure pressures continues to be experienced by Council, some of which are described below.

Revenue Pressures

- Paused indexation of Federal Financial Assistance Grants for three financial years (2014-2017) resulted in a cumulative, adverse financial impact of \$1.063 million. This had a significant impact on service delivery to our community over that period.
- The introduction of Rate Capping from 2016-2017 resulted in an immediate adverse financial impact of \$500,000 and is estimated to result in a 10-year cumulative adverse impact of \$29 million. The State Government's rate capping policy is discussed further below.
- Grants are becoming increasing contestable and difficult to "win" particularly where the primary driver is not economic. This has impacted the level of services provided to the community. The former Country Roads and Bridges program provided an invaluable injection of funding to meet the high infrastructure renewal demand.
- Statutory fees have not increased in accordance with the cost of providing the service. Whilst this has been addressed to a limited extent, further increases in statutory fees are required.
- The transition of HACC services to the Commonwealth and the commencement of NDIS will create significant uncertainty for our community. Whilst short-term funding certainty for HACC has been provided, the indications are funding beyond 2019 will be insufficient to meet the costs of service delivery in a rural context.

Expenditure Pressures

- The increasing legislative and regulatory obligations on Council is becoming costly. Some examples include representation reviews (\$35,000), Local Government elections (\$122,500), increasing emergency management obligations, likely annual property valuations (\$75,000), and the impending introduction of the new Local Government Act (\$140,000). Such costs will only diminish the level and quality of services to our community. Other examples include:
 - Under funding of kindergarten services, which as an education service, is a State Government service
 - The Local Government Performance Reporting Framework which has resource implications resulting in lost productivity of \$15,000 per annum.
 - Libraries – The service is provided by the Corangamite Regional Library Corporation and funded by participating councils with some State Government funding provided. The proportion of State Government funding has declined over the years and will continue to do so in 2017-2018.
 - Family Day Care and Mobile Child Care – The services are provided and managed by Corangamite Shire with funding from the Federal Government. The services are currently provided at little or no direct cost to Council, however changes to funding models could impact this.
 - Recreation Reserves and Halls – Many of the Shire's recreation reserves and halls are located on Crown Land where Council has no delegation of authority. Council makes a contribution to ground and building maintenance and provides insurance coverage. Further pressures may result in Council no longer providing financial support.
- Future defined benefit calls are likely. Whilst Council has been prudent to establish a cash reserve to meet future calls the obligation on Local Government to ensure the scheme is fully funded is inconsistent with both state and federal defined benefit superannuation schemes. Victorian councils should enjoy similar arrangements.

In addition to the current services provided by Council on behalf of other levels of government, there are a range of potential cost shifting implications associated with changes to State Government policy or legislation. Some of these changes appear to reflect an emerging State Government philosophy that sees the State setting the policy with Local Government providing on-ground delivery. Some of these changes to Local Government involve:

- Emergency Management – Following the Bushfires Royal Commission, Local Government was required to play a greater role in emergency planning, response and recovery. Changes identified in a paper by Emergency Victoria could increase council involvement, responsibility and costs.
- Rural Drainage – The State Government appears to be attempting to make councils responsible for rural drainage schemes. This is currently not a major issue for Corangamite, however will impact on neighbouring councils.
- Flood Management – A recently released State-wide flood strategy places greater responsibility on Local Government in relation to flood planning, maintenance of flood infrastructure and the provision of flood monitoring and river gauging infrastructure.
- Marine Safety – A recently released discussion paper suggests that the existing approaches to boating regulation and provision of infrastructure, such as buoys and navigation aids, is not effective and changes are required. There could be considerable costs to Corangamite Shire if Council were to become responsible (e.g. waterway safety policing at Lake Bullen Merri and Deep Lake and responsibility for the Port Campbell jetty).
- Puppy Farms – Whilst the legislation has been withdrawn, this is a good example of cost shifting through legislation.

During the 2016-2017 budget deliberations, effort was made to identify expenditure by the Council for services that are the responsibility of the State Government. This resulted in the following savings for services of which the State has responsibility for:

1. SES contributions – \$60,000.
2. Mt Porndon Fire Tower - \$2,000. The provision of fire services/infrastructure should be covered by the Fire Services Levy.
3. Blue Green Algae testing and monitoring - \$20,000. Council has ceased this service on State controlled water bodies (e.g. Lake Bullen Merri).

From 2017-2018 Council will no longer be maintaining school bus shelters given the State Government's responsibility for public transport and education. Similarly, Council will continue to advocate the cost of school crossing supervision should be fully funded, including both direct and indirect costs.

Many other examples of cost shifting continue to impact the sustainability of rural councils. These include:

- maintenance of fire hydrants
- insurance and property holding costs on crown land
- flood planning and monitoring
- regulation overburden with respect to the management of landfills, including the imposition of EPA landfill levies. Proposes reforms to the EPA are also likely to result in additional costs to Council
- weed control on roadsides (discussed further below).

Fairness, equity and adequacy of rating systems

A property based tax is not necessarily fair and equitable. In lieu of an alternate method, the current system is reasonable and equity can be managed through the existing provision of differential rates, rate rebates and deferral and waiver options.

Annual valuations will be costly as proposed in the State Government 2017-2018 budget and provides no benefit to councils.

Impact of rate-capping policies

Corangamite Shire Council's financial position is strong and generally within the low risk benchmarks as assessed by the Victorian Auditor General's Office. In order to continue to maintain Council's strong record of financial management under a rate capping regime, Council will need to contain, on average, annual increases in costs at or below the cap. This will need to be achieved through reduced operating expenditure. Reducing capital expenditure is not financially responsible; new capital expenditure is generally low and maintaining capital expenditure on renewing existing assets is essential.

To achieve the required reduction in operating expenditure, Council will need to continue to adjust its level of service provision. Financial modelling based on the cap means that from 1 July 2017 Council will need to reduce its recurrent operating expenditure by a further \$50,000 to remain financially sustainable. This is in addition to preserving the \$500,000 savings achieved in 2016-2017 following the introduction of rate capping. Whilst Council continues to identify and implement efficiency and productivity initiatives, these will have a diminishing effect long-term and in the absence of sustainable funding solution, for example a designated funding stream for rural councils, long-term sustainability issues will arise. This was recently highlighted by Victorian Auditor General's Office regarding small rural shires (Local Government: 2015-16 Audit Snapshot).

The key principles underpinning Council's response to rate capping are outlined below.

1. Where possible seek to reduce cost shifting from the State Government
Council currently provides services on behalf of the State Government which are subsidised by Council. For example, the provision of funding to the SES. Whilst Council reduces SES funding to nil from 1 July 2017 no decision has been made by Corangamite Shire regarding the continued provision of additional services provided by Council on behalf of the State Government, including school crossing supervisors and processing of fire permits for the CFA. However, some of these services may need to be 'cut' or 'handed back' to the State Government.
2. Work with other councils through the Municipal Association of Victoria and Rural Councils Victoria to advocate for a fairer system of funding
The ongoing Parliamentary Inquiry into rate capping in 2015 identified a range of services where State Government funding had been significantly reduced over a period of time. For example, library services were originally funded 80% State Government and 20% Local Government; over time these ratios have been reversed. The Inquiry and MAV advocacy resulted in an increase in funding by the State Government for Maternal and Child Health services.

The Inquiry also noted the impact on rural councils by the discontinuation of the State Government's Country Roads and Bridges funding program. This funding provided \$1 million to Council per year for local road and bridge renewal. Infrastructure renewal is paramount to the liveability and connectivity within our communities. External funding for roads is essential to ensure Council can continue to maintain its roads and bridges.

3. Reduce or eliminate some services which are “nice to do but not critical”
Unfortunately, this will impact on our capacity to provide funding and support to communities. It is still too early to know what these services are; it is expected that services will be identified through the annual budget cycle and/or future service reviews.
4. Continue to invest in renewing existing assets
It is important that we don't let our assets (roads and buildings) deteriorate. This means that it is unlikely that substantial cost reductions will be made in these areas.
5. Not borrow to subsidise operating activities
We will not use loans to fund operating activity because this defers the problem to the future.
6. Continue to be as efficient as possible
A challenge for future years will be to keep our costs below the rate cap.

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

Rural councils are involved in flood planning and preparation. Corangamite Shire has many recent experiences of flooding. The impacts of the flooding are diverse, from significant, immediate damage to infrastructure from flash flooding, to the long-term damage to infrastructure. The level of investment required to undertake appropriate flood mitigation work is well outside the capacity of Council and the capacity of Council to pay for flood mitigation works is limited.

In addition to the issues of appropriate planning scheme amendments and emergency management, councils face additional stressors during and following flood events. Most of the public infrastructure damaged by flood waters is managed by Council. However, much of the flooding issues are a result of poor maintenance of draining structures (even the most minor drains and culverts) and failure to allow water to as closely as possible take its natural course.

Agricultural practices such as “raised bed” cropping on farming properties, which drain the areas quicker, increase the risk of erosion on adjacent gravel rural roads. Councils have a responsibility to place culverts to allow water to cross roads “as naturally as possible” and it is essential the water can then continue across other lands, it is not “Council's Water” as some downstream owners think. Management of storm water and the perceived role of Council is an issue where not only is water a valuable resource, but roles and responsibilities are not clear.

The costs of repairing and replacing this infrastructure is an additional burden on councils. While funding may be available where natural disasters are declared, external financial support is limited where flood events are localised. The capacity of councils to find matching funding will continue to reduce as financial pressures increase, leading to poor outcomes for community in the aftermath of flooding events and other natural disasters.

Maintenance of local road and bridge network

The maintenance of Council's local road and bridge network continues to be a challenge. Notwithstanding Council's commitment to sustainable asset management, the ongoing Federal Roads to Recovery Program and former State Country Roads and Bridges Program has been instrumental in Council achieving the desired service levels and providing a quality road network. Similarly, the contestable Federal and State Government Grant Programs have provided significant funding for high value works. The funding pressures described above will put at risk Council's road network if governments do not continue to make available

appropriate grant programs for the required investment to continue. Similarly, the increasing regulatory burden associated with the road construction (e.g. roadside vegetation) continues to impact on cost.

Stormwater run-off from roads and roadside vegetation on the road shoulder and in the table drain is considered contaminated and places unnecessary restrictions and additional resources on how it is managed.

Council remains committed to preserving the condition of its road network and prioritises the renewal and maintenance of existing infrastructure as opposed to building new assets and adding to the cost burden. Council's long-term financial plan projects renewal will be achieved (i.e. 100%), however, this is reliant upon an appropriate level in income.

Of more significance is the dilapidated condition of the road network that is State responsibility. Under investment over a long period has resulted in many State owned roads that are beyond maintenance and now require major rehabilitation. The cost to the local economy is high and the reputational damage to the Shipwreck Coast brand is significant with the Twelve Apostles on the Great Ocean Road attracting over 2.5 million visitors annually. More importantly, State owned roads are now considered unsafe by many in our community. Whilst Council's Community Satisfaction Survey performance rating with local roads is low, most residents, when asked, identify State owned roads as the major reason for their response.

Weed and pest animal control

Legislative changes have transferred responsibility and cost for weeds and pest animal control from the State Government to Local Government over a long period of time. Additionally, the State Government policy around roadside management of weeds and pest animals was changed in 2010 to reflect that Local Government was the sole party responsible for the management of weeds and pest animals on roadsides.

For Council, these shifts and legislative requirements have resulted in councils being responsible for significant tracts of land, including public parks and reserves and most significantly, rural roadside areas. Some funding has been made available to councils to support the cost of managing weeds and pest animals, particularly where they relate to roadside works. The Roadside Weeds and Pests Management Program (RWPP) provides \$5.2 million (2015-2017) for rural and regional councils to plan and manage regionally prohibited, regionally controlled and restricted weeds and pests on rural roadsides. This funding is insufficient to cover the costs of activities associated with weed and pest animal management. Funding from the program is capped at a maximum of \$75,000 per council per year, which reflects just a small portion of the true cost.

Additionally, small councils, particularly those in rural settings, have extensive road networks and areas of public land under management, while at the same time having limited resources and expertise in pest species management. This increases the risk of pest and weed outbreaks occurring in areas where there is no additional capacity within the council to manage the event. Should an event occur, councils are at risk of costly litigation.