

RESPONSE TO THE DRAFT BLUEPRINT FOR CHANGE, LOCAL GOVERNMENT RATES CAPPING AND VARIATION FRAMEWORK REVIEW

Thank you for the opportunity to make a submission on the draft Blueprint for Change, Local Government Rates Capping and Variation Framework Review.

Northern Grampians Shire Council has previously made a submission on the rate capping and variation framework but now chooses to make a further submission. Having read both reports and attending several consultation sessions led by the ESC it became apparent that the impact on the smallest and most financially disadvantaged councils in Victoria requires further consideration. Whilst understanding that it would be difficult to customise an assessment process for each council, we strongly advocate for alternative options for struggling rural councils.

This Council's current Strategic Resource Plan requires a 5% rate increase each year for the next 4 years. Even with this projected rate increase, which is considered to be unacceptably high according to the proposed rate capping CPI, the 4 year capital program is very lean. This can be clearly illustrated by the fact that our annual depreciation is estimated to be \$7.5m to \$8.0m yet at the same time reinvestment back into infrastructure hovers around \$4.3m to \$5.1m annually.

Council accepts the argument that the infrastructure gap is not a precise measure and is difficult to determine, but simply using depreciation as an indicator shows that we only have the capacity to reinvest in about half of our renewal demand using our proposed future rate increases and estimated grant funding.

As a side note, depreciation is a very blunt measure of infrastructure renewal that tends to understate the issue. Engineers would argue that Average Annual Asset Consumption (AAAC) is a better estimate making our renewal demand even higher. In addition to this, the community expectation of quality buildings, roads, bridges, footpaths etc and the renewal demands could be even higher again.

Loan borrowing has been proposed as an alternative funding source to assist councils and while we agree that sensible borrowing can be an appropriate source of funding, with an annual infrastructure gap of between \$3m and \$7m it is clear that this is not a sustainable solution for a municipality of our size and circumstance.

Our own Financial Management Principles, as stated in our Council Plan, provide guidance which limits borrowings to the extent that:

- cost savings can be realised from investment in capital or
- debt services costs can be funded from future revenue streams or
- large capital works that will provide benefits to future generations but
- loan borrowings should not exceed levels which impact on our sustainability (*the upper level of which LGV has recommended for our Council somewhere between \$7m and \$10m*) Currently we are at \$3.8m.

So far this submission has focused on reinvesting in the infrastructure that enables services but has not ventured into the actual provision of those services to the community. Council needs to generate sufficient revenue to cover not only the ongoing expenses of service provision, but also raise sufficient surplus to contribute to capital renewal.

Operating revenue can only be sourced from a limited range of sources, namely;

- rates and charges,
- user fees and fines
- and operating grants.

Operating revenue used to fund services cannot be funded by loan borrowings.

Operating expenditure used to provide services includes;

- employee costs
- material and services
- borrowing costs (interest repayments)

Below is an alternative view of the cash flow statement to help illustrate our financial dilemma.

Financials 2016-2019	2015-16	2016-17	2017-18	2018-19
Revenue				
Rates & Charges	15,810	16,600	17,430	18,302
User fees & Fines	3,141	2,485	2,339	2,477
Grants operating	9,818	9,618	7,350	7,364
Total Revenue	28,769	28,703	27,119	28,143
Expenditure				
Employee Costs	(13,096)	(12,281)	(12,054)	(12,472)
Materials & Services	(12,469)	(12,515)	(10,921)	(11,260)
Total Expenditure	(25,565)	(24,796)	(22,975)	(23,732)
Surplus/(Deficit) from Operations	3,204	3,907	4,144	4,411
Capital Invested				
Grants Capital	3,200	1,005	1,705	1,005
Proceeds of Asset Sales	273	264	248	207
Capital Expenditure	(6,467)	(4,366)	(5,159)	(4,815)
Net Capital	(2,994)	(3,097)	(3,206)	(3,603)
Financing				
Loan Repayments	(479)	(479)	(480)	(479)
Proceeds from Borrowings	0	0	0	0
Net Financing	(479)	(479)	(480)	(479)
Increase (Decrease) in Cash	(269)	331	458	329

Despite extensive efforts to address the sustainability issues at Northern Grampians Shire Council, which have included services, staff and materials and services costs, we still find ourselves in the position as shown above. If the income from rates over the next 4 years is restricted to CPI as per the rate capping framework, the impact on the bottom line is a decrease in cash of over \$1 million.

Additional R2R funding announced earlier this year is not included in the table above, as it was confirmed after the development of the Strategic Resource Plan. Whilst this funding assists Council with addressing the issue of funding the infrastructure renewal gap it does not address the issues regarding providing ongoing services to the community.

Please click on the link below to access a dynamic model of our financial position to see for yourselves our financial dilemma. Our challenge to you is to see if you can make it balance!

[Small Rural Shire Balancing Game](#)

In conclusion, it is our strong recommendation that alternative options for struggling small rural councils be considered, including variations regarding the capping rate set, the efficiency factors to be applied (should not be applied) and the process and charges of applying for a variation.