

Executive Summary

On 22 December 2023 the State Government issued Bulletin 23/2023: 2024-25 Rate Cap and release of Minister’s Good Practice Guidelines for service rates and charges. The sector expected the announcement of the rate cap (although was disappointed with the value), but the issue of the guidelines, to take effect on the 1 March, was a surprise.

While FinPro was consulted on the proposal of the guidelines, we were unable to engage more broadly with councils due to confidentiality provisions. FinPro made it clear to Local Government Victoria during the consultation that we consider some of these provisions were inappropriate, counter-productive and would have significant impact on the financial position of many Councils, potentially reducing essential services, and make it more difficult for the state to reach waste reduction and circular economy targets over coming years.

We made it clear to LGV that we supported and acknowledged that greater guidance in relation to service charges would be appropriate, and would create greater consistency across the sector, however, FinPro strongly object to some of the inclusions and exclusions proposed (“Composition of a Service Rate or Charge”).

Recently FinPro conducted a survey to provide sector-wide data following the released guidelines. In particular, we were interested in determining how many Councils might be impacted by implementing the waste guidelines. Details on these impacts are summarised in the following section “Waste Service Charges” (page 2 to 4).

Our survey results estimate that there is potential for 80% of Councils to be financial impacted by the new guidelines.

As part of the survey, FinPro also asked for responses on:

- Current financial pressures – these have been summarised into themes (refer page 5)
- Individual draft Council plans for the 2024/2025 Rate Cap - refer page 6; and
- Increases to Workers Compensation expenses - refer page 7.

The following provides a summary of the survey results, and planned FinPro actions.

Waste Service Charges

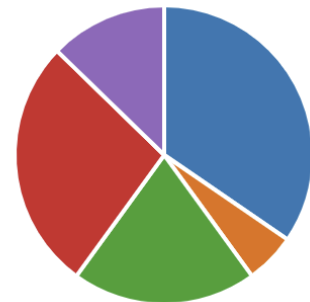
The guidelines state that the following are examples of services that provide a general benefit to the whole municipality and should be funded by the council through revenue sources other than a Service Rate or Charge:

- litter and waste collection from public spaces and the provision of public bins;
- street, footpath and drain cleaning;
- graffiti removal;
- municipal tree planting and maintenance;
- general and/or municipal environmental activities such as park maintenance, public education and advocacy.

Survey Responses:

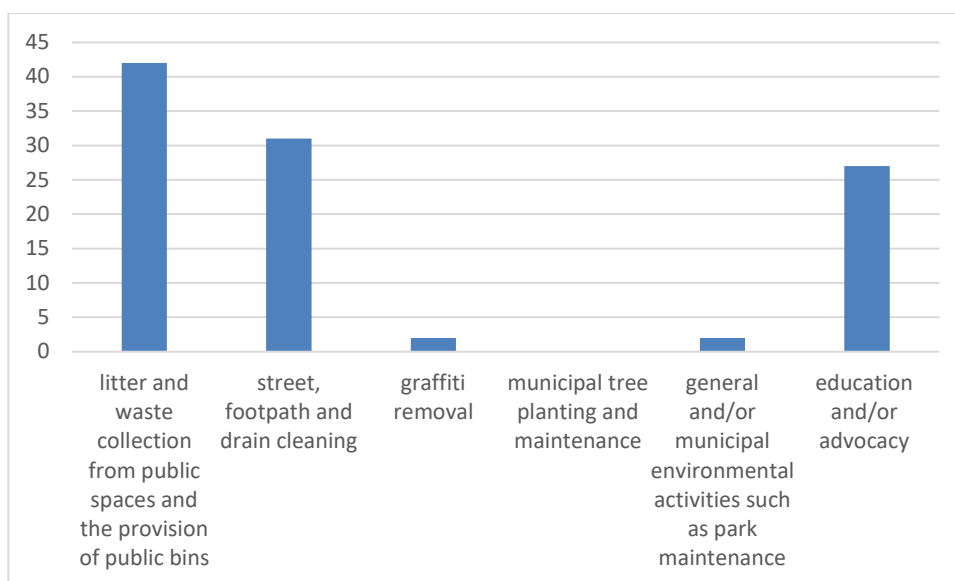
- 55 Councils (70% of councils) completed the survey, with representation across all Council types. The response was extremely pleasing given the survey was only open for one week and was distributed during the January holiday period.

● Metro	19
● Interface/Peri Urban	3
● Large Rural	11
● Small Rural	15
● Regional City	7



Direct impact of implementation of guidelines

- 43 Councils (or 78% of those that responded) noted that they currently include at least one of the costs that would be impacted by the new guidelines, that is, for Councils to fund the item through revenue sources other than a Service Rate or Charge.
- Of the Councils that completed the survey, only one council did not have a service charge. Only 11 Councils (20% of those that responded) believe they would currently be compliant with the guidelines.
- The majority of those that responded noted that they currently include the following costs –
 - litter and waste collection from public spaces and the provision of public bins;
 - street, footpath and drain cleaning; and
 - education and advocacy.



- We asked Councils to estimate the value of costs currently included in Councils waste service charges that would be excluded based on the new guidelines. 39 Councils provided early estimates of the costs. The estimates varied between \$63,000 (small rural) through to \$14 million (metro).
 - The total across the 39 Councils who responded to this particular question amounted to \$103.2 million, with a median across the Councils of \$1.50 million.
- The guidelines are not as clear on the net costs of the operations of transfer stations, and whether they are appropriate to include in a service charge/rate. If the costs of operating transfer stations are not eligible to include, as in many cases they do not have direct relationship to kerbside collection the financial impact to Councils will be even greater.

The anticipated impact on council –

- The vast majority of Councils are likely to not be in a financial position to absorb these changes (especially rural or small councils, and those with a lower rate revenue per assessment).
- Councils are currently limited in the approaches they can undertake to comply with the guidelines and be financial sustainable, especially in a short period of time (pre the 2024/25 budget). Options available to Council would appear to be as follows –
 - i) Advocate to the Minister for Local Government for changes to the guidelines.
 - ii) Not adhere to the guidelines and continue charges as they currently stand. We believe Ministerial Guidelines are not legally binding, and therefore the service charge would remain valid and payable. It is acknowledged that a number of integrity bodies and communities would be disappointed and likely to strongly voice their objection to Councils not adhering to guidelines.

- iii) Reduce the service charges to be in line with the guidelines and absorb the lost revenue – most councils will not have the financial capacity to do this.
- iv) Transfer the relevant costs from service charges to general rates. The Essential Service Commission (ESC) has yet to release a guideline on how to do that under the rate cap scheme, in a cost effective and simple process. This could be resource intensive for both Councils and the ESC, and rate cap variation requests in a Council election year are likely to be politically problematic. The rate cap variation could have a net zero impact in the first year, but consideration of longer-term impacts will need to be considered if waste costs continue to increase at a rate higher than the adopted rate cap. Councils will also need to model the impact of the service charge becoming part of general rates, both of rating differential categories and the impact at various valuation levels.

Actions that FinPro will undertake -

- *Request an urgent meeting with LGV and the Essential Services Commission to discuss the results, impact and how to work together.*
- *Write to the Minister Local Government to*
 - *A) provide a summary of the survey results, acknowledging the financial impact to Councils;*
 - *B) seek a meeting to discuss the survey results; and*
 - *C) requests the Minister delay implementation of the guidelines from 1 March 2024 until 1 July 2025 to allow LGV to fully understand the impact of the changes, consult with the sector and work with Councils and the ESC to ensure Councils do not lose funding given the changes.*
- *Write to our FinPro members, Council CEOs and other peak bodies with the data, and encourage them to raise this issue with their local MPs.*

Financial Position

We asked Councils to detail how they would describe the current financial pressures facing their Council, with comments such as 'extreme', 'significant' and 'immense' being common. A number of themes emerged from the responses:

- **Financial Sustainability Strategy:** Many councils are grappling with financial challenges and developing strategies to improve long-term financial sustainability.
- **Financial Pressure and Deficits:** Many councils face significant financial pressure, with underlying deficits in their Long-Term Financial Plans (LTFP). The rate cap, often below inflation, contributes to these challenges.
- **Service Provision Challenges:** The ability to maintain current service levels is difficult due to the gap between revenue and escalating costs. Councils are considering how to reduce services or levels of service, which will ultimately have impacts on the community.
- **Rate Cap Impact:** The rate cap is insufficient to cover increasing costs in various areas, including labor costs, construction, insurance, and service delivery. This puts pressure on councils to limit capital expenditure, defer projects, and reduce services.
- **Population Growth Challenges:** Growing councils face the challenge of providing infrastructure and services for rapidly increasing populations. This requires careful planning and poses additional financial strain.
- **Cost Escalations:** Councils across the board are experiencing rising costs.
- **Revenue and Funding Issues:** Dependence on rates and waste charges for revenue, coupled with limitations on discretionary income sources, creates financial instability. External funding doesn't always match increasing costs, adding to the strain.
- **Impact of External Factors:** External factors like natural disasters, legislative changes, and global events such as COVID-19 contribute to financial stress, affecting cash flow, operational expenses, and service delivery.
- **Workforce and Employment Pressures:** Employment-related costs, including Enterprise Agreement pressures and staffing challenges, contribute to financial strain. Some councils report difficulties in securing resources.
- **Infrastructure and Asset Renewal Challenges:** Councils are grappling with the need for extensive capital works programs, renewal targets, and new asset demands. The ability to fund these projects is impacted by the rate cap and other financial constraints.
- **Climate Change and Environmental Impact:** Costs associated with mitigating climate change, environmental impacts, and extreme weather events contribute to financial pressure.

- **Legislative Changes and Cost Shifting:** Legislative changes, cost shifting from higher levels of government, and evolving reporting obligations add complexity to financial management.
- **Digital Transformation:** Initiatives like digital transformation projects are being pursued, but economic returns are projected to be minimal, highlighting the challenge of balancing innovation with financial sustainability.
- **Infrastructure Gaps:** Some councils face gaps in service delivery and costings, particularly in growth areas, due to discrepancies in scheme planning and ongoing reliance on grant funding.
- **Ongoing Challenges and Uncertainties:** Councils express ongoing challenges, uncertainties, and the need for constant adaptation to new circumstances, impacting their ability to make real cost savings and sustain services.

Actions that FinPro will undertake –

- *Provide the summary of key themes to the Minister Local Government and LGV.*
- *Write to the Minister Local Government requesting an independent review of the rate cap system, acknowledging a rate cap will remain in place but request a review of its current effectiveness.*
- *Fully participate in the upcoming State Parliamentary inquiry into local government funding and services [Inquiry into Local Government funding and services](https://www.parliament.vic.gov.au) ([parliament.vic.gov.au](https://www.parliament.vic.gov.au))*

Rate Cap

- Through the survey we asked Councils to detail what the likely percentage change to rate revenue would be in their 2024/25 budget. Only one Council (small rural) is considering a 0.0% rate cap – ALL other Councils are planning on applying the full rate cap.

Actions that FinPro will undertake –

- *Provide this summary to LGV, and our members.*

Workers Compensation Insurance

- There have been significant increases in workers compensation insurance across many sectors, including Local Government. There are a number of factors related to this increase, however the State Government increase in the average premium rate from 1.27% to 1.80% as part of the state budget has had a major impact.

51 Councils provided an estimate of their 2022/23 and 2023/24 workers compensation insurance premiums, with the summary of results.

- 2022/23 premiums = \$47.70 million
 - 2023/24 premiums = \$71.59 million
 - That's an increase of \$23.99 million or 33% that is not being invested in key community services.
 - All 51 Councils saw an increase in workers compensation insurance premiums.
 - The \$ impact ranged between \$34,000 and \$3m, and the percentage increase ranged from 4% through to 55% depending on Councils, with a median increase of 32%.
- FinPro acknowledges that Councils should have appropriate insurance cover in place, and the safety of all workers is paramount however the increases in insurance payable will have a direct impact on service delivery – especially when rate revenue (Councils major revenue source) is not keeping pace with the increases.

Actions that FinPro will undertake –

- *Provide this summary information to the Minister Local Government, and request that:*
 - a) the Minister urgently meets with her Ministerial colleagues to discuss the impact and look at possible solutions to reduce the financial impact on Councils, and*
 - b) request both the ESC and the Ministers consider such increases in future announcements associated with the rate cap.*
- *Write to our members with the summary data, and encourage them to raise the issue with their Councillors and parliamentary representatives.*