FinPro
Local Government Finance Professionals

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21 Albert Street Mornington
Victoria 3931

Email: gabrielle@finpro.org.au
Mobile: 0400 114 015
www.finpro.org.au

18 August 2020

Dear Sir/Madam,

Local Government plays an extremely important role in our community's wellbeing, and this will be even more important during our response to and recovery from the current COVID-19 Pandemic. For Victorian Councils to be able to continue providing support to our communities, and drive economic and social recovery, it is integral that the sector remains financial sustainability.

Local Government Finance Professionals (FinPro) undertook a survey of its 79 member councils to understand some aspects of how the sector was responding to the COVID-19 pandemic through the adoption of their 2020-21 Budgets. In particular how councils were dealing with the impact of service closures; the consequent workforce stand downs/redeployments; and providing financial support to their community and local businesses.

FinPro is the peak body servicing Local Government Finance Professionals in Victoria. An Incorporated Association, FinPro has over 550 members representing all Victorian Local Government Councils, 5 regional library corporations and over twenty other organisations. It is affiliated with CPA Australia and represents the sector on the Public Sector Committee of CPA Australia, and is a member of the Project Control Board for the implementation of the Local Government Act 2020.

The attached survey summary report provides some insight to the challenges, and opportunities which our membership has communicated to us. We believe it is helpful information in its own right as a snapshot.

FinPro members have expressed some concern that Councils are being unfairly benchmarked against one another in terms of responses to the pandemic (resourcing and financially) and in their rating decisions - in terms of rate increases, waivers, deferrals, etc.

One aspect of this is an inconsistent understanding around zero rate rise decisions and the flow-on impacts on Council's longer-term financial sustainability to deliver on Community needs. Whilst a 0% rise is one option to support reduced taxation across a Local Government Area, it is not targeted to those most in need and there may be opportunities to increase flexibility to enable this in the future.

The inconsistent approach by councils to deliver relief via rating strategy can be linked to limitations imposed by the Fair Go Rates System (FGRS) and the restrictions with the current rebate and waiver provisions. Prior to the introduction of FGRS, councils would have been able to deliver widespread relief with flexibility in setting rates (e.g. a lower rate in the dollar) in one year, with increases in subsequent years. However, an unintended consequence of the FGRS is that councils cannot effectively deliver rate relief via reduced rates due to the compounding effect of not taking the Minister's rate cap unless through a request for variation to the ESC which is costly to Council.

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As detailed in the Parliamentary report published in 2018 (Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils), there are significant differences between the capacity within individual municipalities.

FinPro will continue to work with key decision makers for any and all improvements to the sectors financial sustainability, including understanding Council's financials performances and challenges. The finance professionals working in Local Government are highly skilled and passionate about their organisations and communities and we encourage you to continue to involve them in any decision making which supports Local Government's responses to the pandemic.

Yours sincerely

Bradley Thomas
President – FinPro
0419 634 128

Gabrielle Gordon
Executive Officer – FinPro
M: 0400 114 015
E: gabrielle@finpro.org.au

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2020-21 Victorian Local Government Budget Response to COVID-19 (FinPro)

Background

The March 2020 COVID-19 restrictions on local government resulted in the cessation and/or closure of those services and facilities where people gathered to try and prevent the spread of COVID-19. In addition, the majority of council events were either postponed or cancelled and activities which involved vulnerable groups in the community such as volunteer programs ceased. Essential services such as aged care, waste collection, cleaning and asset maintenance continued to operate as normal but with enhanced procedures around cleanliness and social distancing.

The direct impact on council operations of the shutdown related to the staff that worked in the areas impacted by the COVID-19 restrictions. The immediate response of many councils was to stand down casual staff and redeploy permanent staff into other areas. However, many councils were faced with more difficult decisions as the revenue generated in those impacted areas began to decline or cease and councils were asked to retain staff without access to JobKeeper. To compound these financial problems, councils were also faced with compliance costs arising from the introduction of the new Local Government Act 2020 which commenced from 1 July as well as the substantial costs of running general elections in October 2020.

Apart from the direct impact of COVID-19 on council services and facilities, the business community in particular was heavily hit with a range of business activities including restaurants, bars, cafes, nightclubs, gyms and indoor sports venues required to close. For those councils whose local economies rely on the tourism sector their business activities such as caravan parks, accommodation providers and tourist attractions were heavily impacted by the travel restrictions. Those small and medium size businesses that could continue to operate were forced to reduce staff and some even faced the risk of closure as they typically did not have the cash reserves to offset declining revenues. This reduction in the payment of wages had flow on impacts to households and caused major financial stress to many members in the community.

In July 2020 metropolitan Melbourne councils and the Mitchell Shire were forced into stage 3 restrictions again for six weeks after a period of greater freedom when local government services such as libraries, leisure and aquatic centres, golf courses and outdoor exercise equipment were allowed to open.

At the time of the report being collated in early August, metropolitan Melbourne have moved to stage 4 restrictions for a further six weeks with regional Victorian councils have moved to stage 3 restrictions. These are unprecedented restrictions, and will have significant impacts on all levels of our economy, (including councils) for many months, possibly years, with no real way to measure this impact with any real certainty.

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Survey Results

Local Government Finance Professionals (FinPro) undertook a survey of its 79 member councils to understand how the sector was responding to the COVID-19 pandemic through the adoption of their 2020-21 Budgets. In particular how councils were dealing with the impact of service closures and consequent workforce stand downs/redeployment and financially supporting their community and local businesses. FinPro found that the Victorian local government COVID-19 budget responses for the 2020-21 year mainly focussed on the following areas:

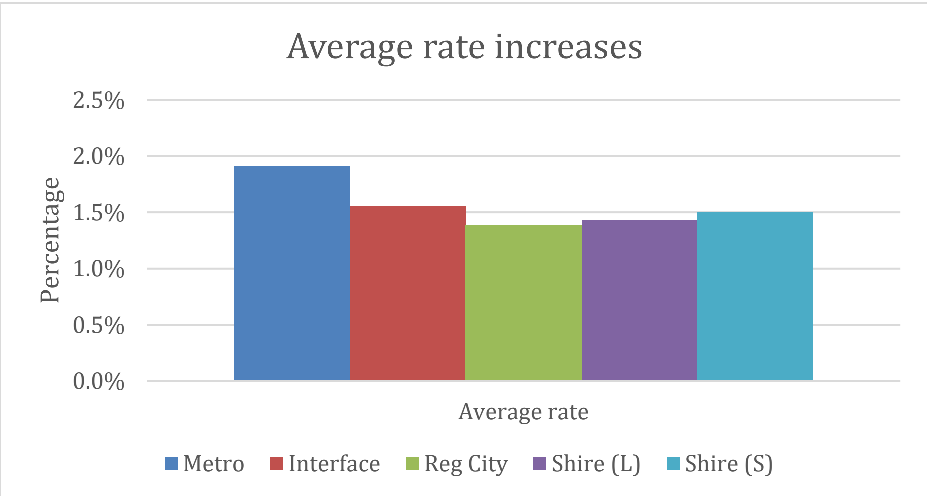
- Rates
- Fees and charges
- Community and business support packages
- Financial hardship.

The survey results for each of these is considered below, analysis is based on public available data at the time of the survey and therefore has been subject to change.

Rates

The survey asked councils what rate increase they proposed for the 2020-21 year and also whether they were planning to provide rebates or other rate reductions to incentivise or support particular parts of their rate base.

The following graph compares the average rate increase for each council grouping for the 2020-21 year.



Metropolitan councils had the highest average rate increase of 1.9% with regional cities the lowest at 1.4%.

The following graph compares for each council grouping, the following rate increase outcomes for the 2020-21 year:

- 2.0% (rate cap)
- Greater than 0% but less than 2.0%
- 0% or less.

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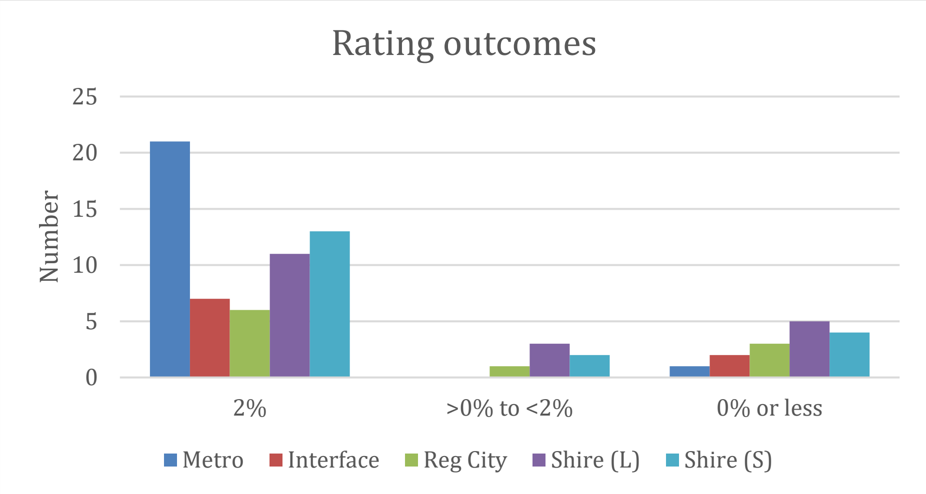

Five large shires or 26% of the group had rate increases of 0% closely followed by small shires with four or 21% of the group. By contrast, 21 or 95% of metropolitan councils had rate increases equal to the rate cap with only one council offering a 0% rate increase. Ararat Rural City was the only council in the state to offer a rate reduction of -1.0%.
Councils also provided a range of rebates, waivers and discounts to certain rate base cohorts or in some cases to the whole rate base, as follows:

- Rate waivers for ratepayers receiving JobSeeker (Frankston)
- Rate waivers for pensioners (Dandenong)
- Rate rebate for business ratepayers on JobKeeper (Kingston)
- Rate rebate of $225 to business ratepayers (Surf Coast)
- Rate rebate of 10% to all ratepayers (Monash)
- Rate rebate equal to rate increase to all ratepayers (Yarra Ranges)
- Increased rebates for pensioners and health card holders (Moreland)
- Waste charges rebate to all ratepayers equal to rate increase (Queenscliffe)
- Early payment discount of 2% (Stonnington)
- Rate discount for businesses that create additional employment (Macedon ranges)

*The councils noted above are for example only as other councils may have offered the same or similar concession, and the above was accurate at the time of the survey.

Fees and Charges

The survey asked councils what increase in fees and charges was proposed for the 2020-21 year and whether they were offering any refunds, discounts or waivers to community groups or businesses which were unable to operate or had reduced operations due to the COVID-19 restrictions.

The following graph compares the fees and charges increase for each council grouping for the 2020-21 year.

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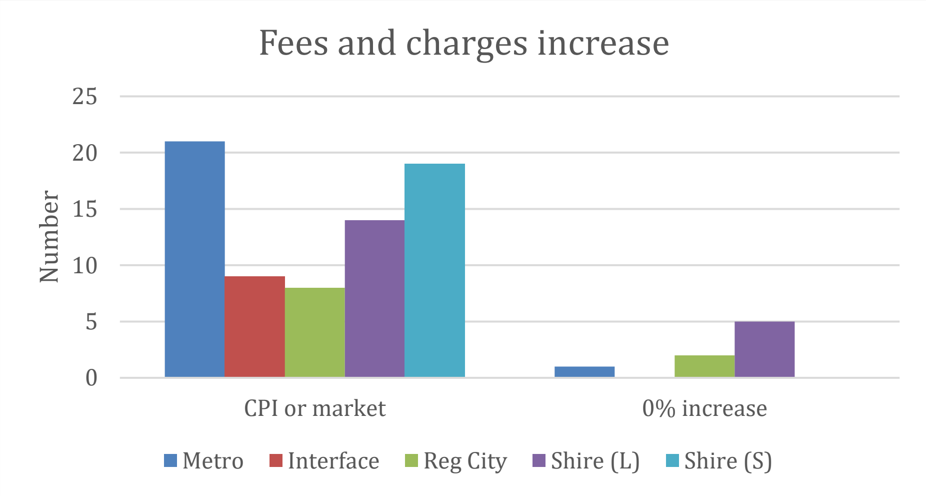

The majority of councils increased their fees and charges (non-statutory) in line with the Consumer Price Index and/or market rates. Eight councils decided to retain their fees and charges at 2019-20 levels.

Most councils provided a range of fee relief measures for their local business sectors including:

- Rent relief to commercial tenants in council buildings
- Refunding/waiving annual fees for food and health premises paid in the current year
- Refunding/waiving of footpath trading permits
- Suspending business special rate schemes
- Waiving parking restrictions and fees in business areas.

Community and sporting groups were also supported through the waving of rent, leases and other user payments for use of council owned properties. Councils that generate significant income from parking revenue such as Yarra and Port Phillip have also supported their communities through the waiving of parking charges and/or parking fines.

Community and Business Support Packages

The survey asked councils whether their 2020-21 budgets contained any targeted economic support and stimulus packages. The following table summarises the financial range of packages by council grouping.

Council Group	High	Low
Metropolitan*	$13.5 million	$2.8 million
Interface	$5.0 million	$2.0 million
Regional City	$10.7 million	$0.5 million
Large Shire	$4.8 million	$0.1 million
Small Shire	$1.7 million	$0.2 million

*City of Melbourne package was $50 million

It is difficult to compare the support packages of each council as there was no consistent approach taken to what was included for the purposes of quantification. In some cases councils took an 'all in' approach, including everything that could be directly or indirectly connected to

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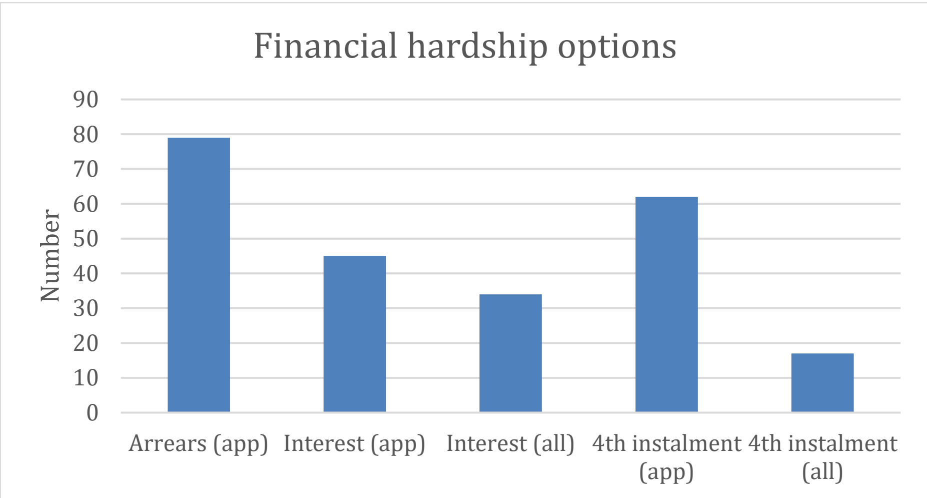
COVID-19 support such as lower rate increases or targeted capital works projects. For other councils, the value of their packages was based on direct support such as small business grant schemes, expanding existing community grant programs or supporting state Government funded programs such as the $500 million Working for Victoria program.

Overall, the survey found that every council offered some amount of targeted support to their community and businesses in their 2020-21 budgets. A number of councils also reduced their payment terms from 30 days to either 14 or seven days.

Financial Hardship

The survey asked councils whether they had implemented measures to support ratepayers who were experiencing financial hardship as a result of COVID-19. The following graph compares the approach taken by councils in responding to financial hardship. In particular whether deferrals or waivers were available on application or available to all ratepayers regardless of circumstance.



Most councils developed a COVID-19 financial hardship policy either as a standalone or as an extension of existing rate hardship policies. In regard to rate arrears, all councils required ratepayers to make an application for a payment deferral and a waiver would only be considered in extreme cases. In regard to the charging of interest on arrears, 45 or 57% of councils required ratepayers to apply for a deferral or waiver. The remaining councils waived the charging of all interest on arrears for varying periods of time. In regard to the payment of the 4th instalment for the 2019-20 year, 62 or 78% of councils required ratepayers to apply for a deferral. The remaining councils extended the payment date for the fourth instalment to varying dates in the 2020-21 financial year.

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Impact of COVID-19 on Financial Sustainability

As well as delivering services to their communities, councils are responsible for managing more than $100 billion in assets which must be maintained and renewed. As asset managers, councils have a responsibility to maintain their financial sustainability over the long term to ensure they discharge their stewardship responsibilities under the Local Government Act 2020.

Many councils surveyed are expecting to report operating deficits in the 2020-21 year (some for the first time) and have budgeted to either use cash reserves or take out borrowings to maintain liquidity. This has been driven by the loss of revenue from closed services and facilities and the cost of maintaining its full workforce without access to government support such as JobKeeper. Add to this the cost of council support and stimulus packages and the financial outlook for some councils (esp. small shires) is bleak. There are also a number of councils still recovering from the impact of the 2019 bushfires. Looking longer term it's likely that future rate increases will be much less than recent levels due to the Consumer Price Index (CPI) which has been a proxy for rate cap increases since inception, experiencing a 1.9% fall in the June 2020 quarter.

Despite this financial outlook, The Age on 1 August 2020 ran an article entitled "Anger as Melbourne councils refuse to freeze rates despite surpluses". The article stated that all but five of Melbourne's metropolitan councils were proposing 2 per cent rate increases despite recording surpluses. In particular it cited the examples of Wyndham ($157 million surplus), Whittlesea ($132 million), Hume ($119 million), Casey ($79 million) and Cardinia ($92 million). It is interesting to note that all of these councils are 'interface' councils who receive significant income from developer contributions and capital grants due to extensive development and population growth occurring within their boundaries. These income types which are 'tied' and not available for general use by the councils contribute almost entirely to their budget surpluses. When these income types are removed, the councils are generating small surpluses at best.

For the 15 Victorian councils that decided to adopt 0% rate increases, the long-term financial impacts of such a decision are significant given the compounding effect of changes in the rate base. The following graph show the cumulative rates lost over ten years (assuming 0.5% growth and an annual cap of 2%) by freezing rates in the 2020-21 year for a range of rate base sizes.

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For a council with a $20 million rate base, the cumulative loss over 10 years would be $4.5 million, for a $50 million rate base it would be $11.3 million and for a $100 million rate base, it would be $22.5 million.

The following rating outcome examples are taken from recently adopted council budgets for the 2020-21 year.

Council	**Rate +increase/- decrease**	**Lost rates over 10 years***
Council 1	-1%	$6M
Council 2	0%	$5M
Council 3	0%	$18M
Council 4	0%	$28M
Council 5	0%	$68M

* Assumes 0.5% annual growth and annual cap of 2%

Comments

The survey found that Victorian councils have been significantly impacted by the COVID-19 restrictions, both in their ability to deliver services to their communities and financially through the loss of revenue. They have been required to retain staff with no access to government support such as JobKeeper as well as fund local community and business support packages, some as high as $13.5 million (City of Melbourne $50 million). Councils have also been faced with compliance costs arising from the introduction of the new Local Government Act 2020 and undertaking general elections in October 2020. 15 councils kept rate increases at 0% or less for the 2020-21 year in response to community pressure which will result in significant long-term rate losses. Many councils surveyed are expecting to report operating deficits in the 2020-21 year (some for the first time) and a number of councils (esp. small rural) are faced with bleak long-term financial outlooks.

COVID-19 will have long lasting impacts on community and business behaviours which will change the way that councils engage and provide services into the future. Facilities such as performing art centres, cinemas or even indoor aquatic and sports centres may not be fully utilised for many years providing future planning and cost challenges. Councils are now faced with a new post COVD-19 normal which previous history and experience offers little guidance on how to structure themselves to meet the new needs of their communities. A great deal of planning will be required by the sector to respond to the aftermath of the pandemic.