

7.3 BUDGETARY CONSTRAINTS AND FINANCIAL SUSTAINABILITY

File Number:**Author:** Fiona Rae, Manager Finance**Authoriser:** Lynnere Gray, Director Corporate Services**Attachments:** Nil**RECOMMENDATION**

That Council acknowledge the challenging financial environment that is confronting Councils across Victoria in the preparation of 2024-25 Council budgets, and the impact upon the long-term financial sustainability of Councils like Golden Plains.

EXECUTIVE SUMMARY

The Local Government sector in Victoria is currently facing several challenges impacting its financial sustainability. This report outlines these issues and emphasises the need for prudent financial monitoring in the preparation of the upcoming draft budget. Recognising the burden of cost-of-living challenges on households, Council acknowledges that rate increases are not the sole solution. To navigate these challenges, Council must explore options such as alternative income streams, consider business improvements / efficiencies and service level reductions.

BACKGROUND

The prevailing economic conditions across the nation are influencing all facets of daily life, including the operations of Council. Costs for utilities, insurances, materials and contracts are rising at a rate surpassing CPI, and notably exceeding the yearly increase in rate income. With a significant slowdown in growth within the Shire, Council is now more reliant on support from State and Federal Governments to deliver the necessary services, maintenance, and demanded capital improvements that the community needs.

DISCUSSION

Financial sustainability is Council's ability to manage its financial resources in a responsible and efficient manner over the long term. It involves ensuring that revenue sources are sufficient to cover operating expenses, fund essential services and liabilities, and ensure an adequate surplus to effectively manage and invest in assets. It also includes planning for future needs, such as the upgrade and maintenance of infrastructure to respond to community needs and growth, while considering the potential impacts of economic fluctuations and changing demographics.

A number of challenges continue to impact on the overall operations and financial sustainability of Council.

Fair Go Rates System - Rate Capping

Since its inception in 2016, the 'Fair Go Rates System' has challenged all Victorian Councils' financial sustainability. The Essential Services Commission (ESC) is responsible for recommending a rate cap for all Victorian Councils to the Minister for Local Government each year. The ESC has recommended the rate cap be set equal to the Consumer Price Index (CPI) forecast, however the CPI does not accurately reflect increases in costs faced by Councils, because they have a significantly different composition of expenditure compared to households. Key Council expenditures required to provide services and deliver infrastructure projects, have been increasing faster than the CPI due to escalating contract prices for infrastructure projects driven by factors such as inflation, supply pressures and competition from State infrastructure initiatives.

As an example, this year the Minister has set the 2024-25 rate cap at 2.75%, compared to the Reserve Bank CPI forecast of 3.4% and September 2023 CPI for Melbourne of 4.9%. ESC recommended the rate cap be set at the Department of Treasury and Finance CPI forecast of

3.4%, as opposed to the actual rate cap set at 2.75%, which is a shortfall of 0.65%. This may not sound significant, but this equates to \$684,000 less income in the budget.

The ESC identified five key considerations when making its recommendation, three of which were either not considered enough to understand and reflect the impacts on the sector, or were not able to take into consideration other decisions of the Minister:

- While Council cash reserves are declining, the sector maintains low levels of debt and stable borrowing levels – the recent hike in interest rates has significantly increased the cost of borrowing with many Councils experiencing no appetite to increase debt. There seems to be a push to increase debt to manage increasing costs.
- Council costs increased at a slower rate than inflation during 2022-23 but at a higher rate than the current year (2023-24) rate cap of 3.5% - the analysis would not be effective in capturing the fact that Councils are managing their costs within their means by reducing discretionary costs, which also leads to a reduction in service levels.
- Construction costs continue to rise but at a slower pace than last year – this has resulted in many Councils significantly reducing their capital program, adding to the renewal gap issue and long-term financial sustainability.

ESC further summarised these impacts in their recommendation on the rate cap:

“In our view, the gap between the rate cap and inflation, rising construction costs, and the expectation of future wage increases have the potential to present major cost pressures on Councils going forward”.

A number of Local Government sector bodies strongly oppose this low-rate cap, with the Municipal Association of Victoria (MAV) lobbying for a review of the rate cap process:

“The rate cap system does not take into account the vastly different needs of Councils across the State with some Councils still facing exhaustive repair bills from natural disasters and others in desperate need of upgraded or new infrastructure. A more flexible approach to the rate cap, recognising unique infrastructure challenges, cost shifting by the State Government, and the true cost of Council services would provide a more effective way forward for the sector”.

An application can be made to the State government requesting higher rate cap, however this isn't necessarily the longer-term answer on its own, as the community capacity to pay continues to become more and more challenging.

Cost Shifting

Cost shifting has also been a major financial issue for many years. Over time, Councils have been required to take on additional responsibilities, deliver them within the prescribed fees and contain our rate increase to a State imposed cap, which have had a detrimental impact on the financial position of Councils. Funds received by State Government have not increased in line with real cost escalation. Council has relied on rate revenue to bridge funding gaps, meet growing service demands, comply with new Government policies, tackle rising costs and fulfill community expectations.

The Australian Local Government Association is calling for additional Federal Government funding noting *‘Many of Australia’s Councils are under significant financial pressure, which is being compounded by increasingly frequent natural disasters, jobs and skills shortages and inflation’*. *‘FA Grants have declined from one per cent of Commonwealth taxation revenue in 1996 to just 0.5 per cent today’*.

Cost shifting is being quoted in a number of arenas and discussions within the Local Government sector, particularly following the announcement of a Parliamentary inquiry into Local Government funding and services which will investigate:

- Cost shifting from State and Federal Governments to local Council,
- Ability of Local Governments to meet core service delivery objectives,

- Local Government's revenue structure, as well as whether these structures are sustainable and appropriate, and whether there are alternative models of funding to consider.

A number of Councils are capturing data on the impacts of cost shifting to their financial plans, operations and service levels. Examples of the services include, but are not limited to:

Reduced funding - Electric line clearance, Libraries, Fire Hydrant maintenance and School Crossings

Services with State fees that are below cost recovery - Statutory Planning, Building Services and Environmental Health

New services that State has imposed upon Councils to provide - 4 Bin Waste Collection

Other Factors that we need to consider:

Election 2024

The Local Government Council Elections 2024 will take place in October 2024. The Victorian Electoral Commission is responsible for the running of these elections however the costs are passed onto each Council. The expected costs for the Election process itself is just over \$200,000 and doesn't consider the additional costs incurred by Council to meet its mandatory obligations.

Windfall Gains Tax

From 1 July 2023, a State Government Windfall Gains Tax applies to all land rezoned by a planning scheme amendment, resulting in a value uplift to the land of more than \$100,000. In determining the value uplift, all land owned by the person or group and subject to that rezoning is taken into account. The recent decision by the Minister, as the Planning Authority, to approve Planning Scheme Amendment C103gpla & Planning Permit P23244 for the rezoning of part of the Bannockburn Recreation Reserve for a 51-lot residential subdivision will result in Windfall Gains Tax being payable. The liability for Windfall Gains Tax arises upon the rezoning occurring. Owners of land liable to pay Windfall Gains Tax will be issued with a Windfall Gains Tax assessment with a due date for payment. We will have the option to defer payment of all or some of their Windfall Gains Tax liability until the next dutiable transaction (or relevant acquisition) occurs, or 30 years after the rezoning event, whichever occurs first.

Insurance Increases

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

Utilities

Utilities continue to increase above CPI, for instance Electricity prices have increased by 6.9% in the 12 months to December 2023 after factoring in the energy bill relief rebates, or 17.6% when excluding rebates (noting as Council is not eligible for a rebate).

Materials

Increases to the cost of materials will continue with key indices confirming further increases in construction and civil engineering costs from previous years. Building construction pricing has increased by 5.4% in the 12 months to December 2023 due to ongoing skilled labour shortages and increases in margins to mitigate risks over longer-term projects. Civil construction indices have increased by 2.7% in the 12 months to December 2023 due to ongoing skilled labour shortages and increases in operating costs of machinery. These increases are on top of the 13.1% and 9.6% for building construction and civil construction respectively for the 12-month period to December 2022.

Proposed Changes to the Waste Charge

Local Government Guidelines for Services Rates and Charges were issued in late December 2023 and include a change to the waste costs that can be recovered via the waste charge. Costs that are excluded are litter and waste collection from public spaces, street/footpath and drain cleaning, graffiti removal, municipal tree planting and maintenance, general and environmental activities such as park maintenance, public education and advocacy. Although our Waste Charge doesn't include all of these, it does include some, and if Council were to be compliant from July 1, Council estimates it would have to find an additional \$850k from its operating budget, to continue to provide those services.

Regulatory compliance

New regulations, such as the Circular Economy Act which mandates the new 4 Bin systems, new recycling processes and requirements, and changes to existing regulations such as the Environment Protection Act/General Environmental Duty/Climate Change Act will all result in increased cost to Councils and residents over the short, medium and longer term to meet the minimum compliance requirements.

Community Consultation

Council will be at the Smythesdale Market in March. This event marks the first opportunity for the community to discuss the challenges posed by the current economic climate and their impact on the 2024-25 budget. Council aims to gather feedback on potential reductions, deferrals or cancellation of services, programs or projects to help create a balanced budget.

REPORTING AND COMPLIANCE STATEMENTS

Local Government Act 2020 (LGA 2020)

Implications	Applicable to this Report
Governance Principles (Consideration of the Governance Principles under s.9 of LGA 2020)	Yes
Policy/Relevant Law (Consideration of the Governance Principles under s.9 of LGA 2020)	Yes
Environmental/Sustainability Implications (Consideration of the Governance Principles under s.9 of LGA 2020)	Yes
Community Engagement (Consideration of Community Engagement Principles under s.56 LGA 2020)	Yes
Public Transparency (Consideration of Public Transparency Principles under s.58 of LGA 2020)	Yes
Strategies and Plans (Consideration of Strategic Planning Principles under s.89 of LGA 2020)	Yes
Financial Management (Consideration of Financial Management Principles under s.101 of LGA 2020)	Yes
Service Performance (Consideration of Service Performance Principles under s.106 of LGA 2020)	Yes
Risk Assessment	Yes
Communication	Yes
Human Rights Charter	Yes
Gender Equality (Gender Impact Assessment [GIA] required by s.9 of Gender Equality Act)	Yes – certain programs and services will require

2020)	GIA but not the budget itself
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GOVERNANCE PRINCIPLES

The 2024-25 Draft Budget will be prepared in accordance with the requirements of the *Local Government Act 2020*.

POLICY / RELEVANT LAW / REFERENCES

Local Government Act 2020

Local Government Amendment (Fair Go Rates) Act 2015

Local Government (Planning and Reporting) Regulations 2020

Essential Services Commission - Our advice on setting council rate caps –

<https://www.esc.vic.gov.au/local-government/annual-council-rate-caps/our-advice-setting-council-rate-caps>

Municipal Association of Victoria - Disappointing rate cap, system needs review –

<https://www.mav.asn.au/news/disappointing-rate-cap.-system-needs-review#:~:text=%E2%80%9CThe%20rate%20cap%20is%20a,of%20councils%20across%20the%20state.>

Australian Local Government Association – time to deliver ‘fair increases’ to Financial Assistance Grants for Councils –

<https://alga.com.au/time-to-deliver-fair-increases-to-financial-assistance-grants-for-councils/>

Parliament of Victoria – inquiry into Local Government funding and services -

<https://www.parliament.vic.gov.au/get-involved/inquiries/inquiry-into-local-government-funding-and-services/>

Victoria State Government - Local Government Service Rates and Charges –

https://www.localgovernment.vic.gov.au/_data/assets/pdf_file/0012/204222/Attachment-A-MinisterialGoodPracticeGuidelinesForServiceRatesAndCharges.pdf

ENVIRONMENTAL/SUSTAINABILITY IMPLICATIONS

Environmentally sustainable design and construction is included for all projects.

COMMUNITY ENGAGEMENT

The principles contained in the 2021-2025 Council Plan were adopted after an extensive community engagement and consultation process. The Draft Budget will be prepared based on these adopted principles.

The 2024-25 Draft Budget will be placed on public exhibition for one month in accordance with the Community Engagement Policy. Any resident/ratepayer can make written comment on any proposal contained in the budget. Feedback will be heard at a Council meeting on 4 June 2024.

PUBLIC TRANSPARENCY

The public consultation process facilitates transparency of the budget submitted for adoption and all Council reports are available for the public to access.

STRATEGIES/PLANS

The 2024-25 Draft Budget will be prepared ensuring consistency with Council’s long term financial plan, and also ensuring alignment with the 2021-2025 Council Plan.

FINANCIAL MANAGEMENT

The 2024-25 Draft Budget will be prepared in accordance with the *Local Government Act 2020*, *Local Government (Planning and Reporting) Regulations 2020*, Australian Accounting Standards and other mandatory professional reporting requirements. Financial sustainability is monitored by

considering the financial result for the period and key financial indicators within Council's long term financial plan.

SERVICE PERFORMANCE

Service performance levels are considered when developing the annual budget to ensure sufficient funds are available to meet required levels of performance.

RISK ASSESSMENT

There are identified risk implications associated with this report, detailed below:

The 2024-25 Draft Budget will be prepared in accordance with the requirements of the *Local Government Act 2020* incorporating long term financial plan requirements to ensure financial sustainability over the short and long term.

COMMUNICATION

The 2024-25 Draft Budget will be reported to Council as it is formulated with a series of workshops held with Council to facilitate the development of the draft budget. The 2024-25 Draft Budget will be placed on public exhibition for a four week period, with public submissions considered at the 4 June 2024 Council meeting, and adoption of the budget at the 25 June 2024 Council meeting.

HUMAN RIGHTS CHARTER

It is considered that this report does not impact negatively on any rights identified in the Charter of Human Rights and Responsibilities Act 2006 (VIC).

GENDER EQUALITY

Whilst the 2024-25 Draft Budget itself does not require gender impact assessment, some of the services and programs included in the budget will require a gender impact assessment.

CONFLICT OF INTEREST

No officer involved in preparing this report has any conflicts of interest in regard to this matter.

CONCLUSION

In accordance with the legislation, Council will place the draft Budget out for public exhibition in May prior to the adoption of the final budget by 30 June 2024.