Alternative sources of income for local government

Rural Councils Victoria

22 | 12 | 2022

SGS Economics & Planning

Certified B Corporation

SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

Offices in Canberra, Hobart, Melbourne, and Sydney, on Ngunnawal, muwinina, Wurundjeri, and Gadigal Country.

Contents

Executive summary

Rural councils face specific funding challenges in meeting the needs of their communities. Rural councils rely heavily on federal and state government grants to service the needs of their ratepayers and to remain financially viable, with little access to substantial or helpful levels of 'own source' income. This report overviews the issues faced by rural councils and presents opportunities to support the long-term financial sustainability of rural councils.

Project context and purpose

RCV member councils comprise 11.5 per cent of the Victorian population, 77.2 per cent of the state's land area and 62 per cent of Victoria's local roads network.

The impact of a dispersed and small population spread over a large geographic area presents several challenges for rural councils in meeting the needs of their communities. Not least being that rural councils have small rate bases and little access to substantial or helpful levels of 'own source' income.

In 2017, the broader funding challenges facing rural councils were examined through the Rural and Regional Councils Sustainability Reform Program conducted by KPMG and commissioned by Local Government Victoria (Department of Jobs, Precincts and Regions) and the Department of Environment, Land, Water and Planning (DELWP). The report outlined a series of reform options for the ongoing financial sustainability of councils.

This report seeks to verify the currency of the previous Rural and Regional Councils Sustainability Reform Program report from KPMG and identify possible options for other forms of sustainable income that rural local governments have put into place beyond rating, fines, and state and federal government grants.

Project scope

This report presents the findings of several avenues of inquiry targeted at identifying new opportunities for own-source income. These are:

- Review of the legislative framework governing local government financial operations, and relevant past research.
- Audit of annual reports of all councils in Victoria.
- Survey of local governments across Australia, and targeted follow-up interviews.
- Consultation with Australian local government experts and other relevant stakeholders.
- International best-practice review of opportunities in comparable jurisdictions.

Key findings

The research undertaken in this report has found that:

- Local governments are efficient organisations which generate great value given their limited resources. While rural Councils have the opportunity to pursue a range of new or 'boutique' revenue sources, none of these are likely to generate income flows of sufficient magnitude to materially improve local government finances. The solution to the long term financial sustainability of Councils is likely to require improved access to national tax revenues.
- 'Other' income sources represent a small proportion of income across all rural councils in Victoria.
- The *Local Government Act 2020 (Vic)* affords councils a much higher degree of flexibility than the previous *Act* in how local government organisations conduct their business and is designed to promote council innovation and collaboration.
- Rural councils continue to rely heavily on the income from government in comparison to metropolitan councils. Opportunities exists to increase revenue through fees, charges and other contributions, however, communities in rural and remote areas have a much lower capacity to pay compared with their metropolitan counterparts.
- Establishment of entrepreneurial enterprises and businesses leveraging councils' existing asset and resource base represents the most significant and largely untapped opportunity for rural councils. This opportunity is limited by a lack of in-house skills and capacity and catalyst funding resources.
- Several recommendations made within the Local Government Rating System Review (2020) were not adopted by government but remain relevant. For example, there are several statutory exemptions to rating that may not be justified to remain exempt including mining and residences of ministers of religion and places for their education and training.
- Fees and charges are not implemented in accordance with best practice principles across many local governments and opportunities exist to increase efficiencies in this area and recover the full costs of services provided by councils.
- The best-practice audit identified several innovative opportunities relevant to RCV members, and highlighted the need for continued knowledge sharing across the sector.
- While the pursuit of new avenues of revenue raising is important, councils should continue to look for ways of reducing costs and further improving efficiency. Shared services remain a relatively untapped cost saving mechanism for councils. However, a lack of understanding of their benefits and how to implement them remains an issue among councils.

Summary of alternative income source options

Importantly, despite extensive investigation, no 'quick-win' or cover-all solutions to local government financial security were discovered. Instead, the options presented offer opportunities that will be suitable to councils based on their own unique geographic, economic and strategic contexts.

Implementation of some of the more lucrative options will require a considerable level of resourcing (staff time, expertise and financial resources). As has been discussed throughout this report, the ability

of rural local governments to direct resources to such initiatives (which entail different levels of risk) varies.

The findings of this report are useful in identifying potentially untapped opportunities for some councils but ultimately suggest that intervention by higher levels of government is required to ensure the ongoing sustainability of the sector as a whole which is essential to the continued health and vitality of their communities.

The focus of the research conducted in this report and the scope of the options is on own-source income streams for rural councils. However, through both consultation and review of key documents, cost-saving opportunities were consistently raised recognizing the inherent relationship between revenue raising and cost-saving to achieve financial sustainability and should be considered by councils to help achieve financial sustainability. A summary table of alternative income options is provided below in Table 1.

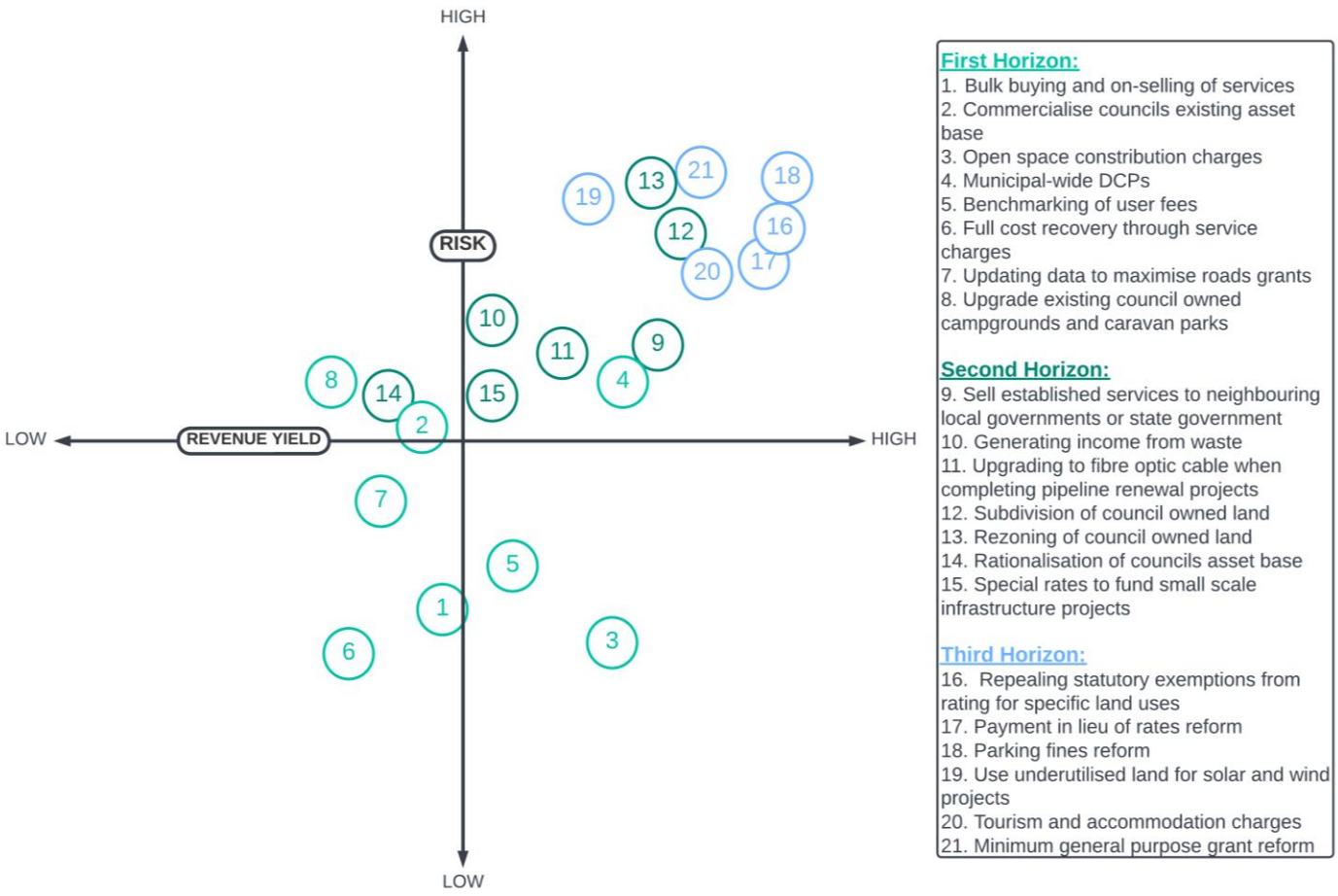
TABLE 1: SUMMARY OF OPTIONS

Option		Risk vs Return
1.	Bulk buying and on-selling of services	Low risk, medium return
2.	Commercialise council's existing asset base	Medium risk, medium return
3.	Open space contribution charges	Low risk, medium return
4.	Municipal-wide DCPs	Medium risk, high return
5.	Benchmarking of user fees	Low-medium risk, medium return
6.	Full cost recovery through service charges	Low-medium risk, low-medium return
7.	Updating data to maximise road grants	Medium risk, medium return
8.	Upgrade existing council owned campgrounds and caravan parks	Medium risk, low-medium return
9.	Sell established services to neighbouring local governments or state government	Medium-high risk, medium return
10	Generating income from waste	Medium-high risk, medium return
11	Upgrading to fibre optic cable when completing pipeline renewal projects	Medium risk, medium return
12	Subdivision of council owned land	High risk, high return
13	Rezoning of council owned land	High risk, high return

14	Rationalisation of councils' asset base	Medium risk, medium return
15	Special rates to fund small scale infrastructure projects	Medium risk, medium return
16	Repealing statutory exemptions from rating for specific land uses	High risk, high return
17	Payment in lieu of rates reform	High risk, high return
18	Parking fines reform	High risk, high return
19	Underutilised land for solar and wind projects	High risk, high return
20	Tourism and accommodation charges	High risk, high return
21	Minimum general purpose grant reform	High risk, high return

The resources required, and risks confronted, for these options vary greatly, as does the amount of potential income they can generate for each council. A risk return appraisal summary is included below in Figure 1.

FIGURE 1: RISK VS RETURN APPRAISAL OF OPTIONS



Source: SGS Economics and Planning, 2022

Agenda for further action

The above actions should be pursued through implementation of the following priority actions:

1. RCV should utilize the findings of this report to advocate to state and federal government for reform of local government funding arrangements. This report highlights that while some opportunities for raising additional revenue exist, these are relatively limited, require levels of resourcing beyond the capacity of many rural local governments, and will not resolve broader structural funding challenges. This includes revision of the minimum general purpose grant allocation.
2. RCV should prepare a broader advocacy agenda targeting:
   - Repeal of statutory exemptions from rating for specific purposes.
   - Reform of the payment in lieu of rates scheme.
   - Introduction of statutory mechanisms to allow for the collection of tourism and accommodation charges.

3. RCV should support members to jointly commission:
   - Review of council assets and services to identify opportunities for rationalisation and/or commercialization.
   - Review of service charges and user fees to enable full-cost recovery.
   - Preparation of municipal-wide DCPs and open space plans to implement development contributions levies and increase open space charges.
   - Collection of data on local road networks to support fair allocation of Local Roads Grants.
4. RCV should develop guidelines and assistance for members to use the bulk buying facility of MAV to generate additional revenue through on selling of goods and services to other members of the community.
5. RCV should set up an information exchange to share information across member councils in a structured way. This should include a website with resource materials of experience and knowledge of local government business projects. Other information sharing activities could include a standing agenda item for RCV committee meetings, and potentially staff secondments to accelerate the take up of best practice.

1. Introduction

This section overviews the context for this project, the study area and the purpose, scope and contents of this report.

1.1 Project background

Rural councils face specific funding challenges in meeting the needs of their communities. These challenges stem from their smaller dispersed populations, lower rates base and large geographic service area.

RCV member councils comprise 11.5 per cent of the Victorian population, 77.2 per cent of the state's land area and 62 per cent of Victoria's local roads network.

In 2022 Rural Councils Victoria (RCV) received grant funding from Regional Development Victoria to undertake projects that will ultimately lead to outcomes that:

- Allow rural councils to better position themselves in pursuing economic and community growth opportunities.
- Attract investment, improve viability and wellbeing, and strengthen innovation and resilience of local communities and businesses.
- Increase collaboration between rural councils in delivery of economic and community development activities.

This report is part of a project addressing the first outcome listed above, investigating the ongoing financial sustainability of rural councils. Rural councils have small rate payer bases which makes raising adequate levels of revenue to meet community needs difficult. RCV has undertaken previous work which established that, unlike metropolitan and regional city councils, rural councils are largely unable to raise substantial or helpful levels of income through fines, parking revenue and other commercial endeavours. Rural councils rely heavily on federal and state government grants to service the needs of their ratepayers and to remain financially viable, with little access to substantial or helpful levels of 'own source' income.

In 2017, the broader funding challenges facing rural councils were examined through the Rural and Regional Councils Sustainability Reform Program conducted by KPMG and commissioned by Local Government Victoria (Department of Jobs, Precincts and Regions) and the Department of Environment, Land, Water and Planning (DELWP). The report outlined a series of reform options for the ongoing financial sustainability of councils.

This report seeks to verify the currency of the previous Rural and Regional Councils Sustainability Reform Program report from KPMG and identify possible options for other forms of sustainable income that rural local governments have put into place beyond rating, fines, and state and federal government grants.

1.2 Study area

RCV was established in 2005 to coordinate a network of 36 rural councils across Victoria and to strengthen shared efforts to better understand, articulate and address the issues that affect them.

Local Government Areas (LGAs) represented by RCV (and henceforth referred to collectively as the "RCV region") are listed in Table 2.

TABLE 2: RCV MEMBER COUNCILS

Rural North West Region	Rural North East Region	Rural North Central Region
– Buloke Shire Council – Hindmarsh Shire Council – Northern Grampians Shire Council – Swan Hill Rural City Council – West Wimmera Shire Council – Yarriambiack Shire Council	– Alpine Shire Council – Benalla Rural City Council – Indigo Shire Council – Mansfield Shire Council – Mitchell Shire Council – Moira Shire Council – Murrindindi Shire Council – Strathbogie Shire Council – Towong Shire Council	– Campaspe Shire Council – Central Goldfields Shire Council – Gannawarra Shire Council – Loddon Shire Council – Macedon Ranges Shire Council – Mount Alexander Shire Council
Rural South Central Region	**Rural South West Region**	**Rural South East Region**
– Borough of Queenscliffe – Golden Plains Shire Council – Hepburn Shire Council – Moorabool Shire Council – Pyrenees Shire Council	– Ararat Rural City Council – Colac Otway Shire Council – Corangamite Shire Council – Glenelg Shire Council – Moyne Shire Council – Southern Grampians Shire Council	– East Gippsland Shire Council – South Gippsland Shire Council – Wellington Shire Council

2. Legislative framework for local government income

This section outlines the current legislative framework governing local government powers and responsibilities to identify potential challenges and opportunities in leveraging new own source income opportunities.

2.1 Overview of the legislative framework

The principal legislation governing the establishment and operation of councils in Victoria is the *Local Government Act 2020* and the *Local Government Act 1989* (rating provisions only). They define the purposes and functions of local government and provide the legal framework for administering councils. The Acts and their implications on funding of councils are set out below.

2.2 Local Government Act 2020

The *Local Government Act 2020* (the Act) provides a framework for the establishment and operation of councils and is the main legislative instrument for Victoria's 79 Councils.

The previous *Local Government Act 1989* and its associated regulations prescribed many details about how councils could, among other things:

- Make decisions
- Conduct public consultation processes
- Provide notices of meetings
- Run meetings
- Make information available to the public.

Over time, it had become apparent this level of prescription was unnecessary for modern councils. The 2020 Act removes unnecessary regulatory and legislative prescriptions and enables councils to govern based on five principles (Table 3).

TABLE 3: LOCAL GOVERNMENT ACT 2020 - PRINCIPLES

Principles	Descriptions
Community engagement	At a minimum, all councils must adopt and maintain a community engagement policy which must be used in the development of planning and financial management, community vision, council plan and financial plan.

Strategic planning	Councils must ensure that communities are involved in longer term strategic planning processes and decision making.
Financial management	Councils must undertake responsible spending and investment that ensures financial, social, and environmental sustainability. Under these principles, the revised Act seeks to provide a legislative environment that embraces innovation, modern business practices, and microeconomic reform. The Act no longer contains provisions that may be considered to impede collaboration and innovation, particularly those needing elaborate corporate structures for simple service-sharing arrangements between councils.
Public transparency	Councils are required to adopt and maintain a public transparency policy, which must be in line with underpinning principles in the Act.
Service performance	Councils must deliver equitable, accessible, and good value services; and meet the needs of their diverse communities.

Source: Local Government Act, 2020

There are five sections of the Act relevant to the study including:

- Section 101: Financial management principles
- Section 93: Revenue and rating plan
- Section 114: Restriction on power to sell or exchange land
- Section 110 and 111: Beneficial enterprises
- Section 103: Investments.

At the time of writing this report the *Local Government Act 1989* rating provisions still apply and so Section 155: 'What rates and charges may a Council declare?' remains relevant.

The following discussion provides further detail as to the contents and implications of relevant sections of the legislation.

Management of income

Under Section 101 of the Act, a council must prepare and adopt financial policies that give effect to the financial management principles which include:

- Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans.
- Financial risks must be monitored and managed prudently having regard to economic circumstances.
- Financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community.
- Accounts and records that explain the financial operations and financial position of the Council must be kept.

Councils manage significant finances on behalf of their communities and have an obligation to manage these finances responsibly to ensure the delivery of important services and facilities.

Underpinning these expectations is the need for financial sustainability. Although the previous Act did include principles for financial management, sustainability was not included. It is, however, vitally important that councils undertake responsible spending and investment that ensures financial, social, and environmental sustainability.

The new *Local Government Act 2020* is also intended to create a legislative environment that embraces innovation, modern business practices and microeconomic reform. The Act no longer contains provisions that may be considered to impede collaboration and innovation, particularly those needing elaborate corporate structures for simple service-sharing arrangements between councils. The new Act is designed to actively encourage collaboration.

Revenue and Rating Plan

Under Section 93 of the Act, a Council must prepare and adopt a Revenue and Rating Plan by the next 30 June after a general election for a period of at least the next 4 financial years.

The Revenue and Rating Plan outlines the assumptions, policies, and decisions of Council in relation to generating the required income to effectively support the implementation of the Council Plan and budget for a 4-year period. It provides a medium-term plan for how Council will generate income to deliver on the Council Plan, program, services and capital works commitments over a 4-year period. It defines the revenue and rating 'envelope' within which Council propose to operate. It incorporates considerations of:

- **Rates:** How revenue will be generated through rates on properties (including differential rates, if any) on different property classes. Fixed service charges that might be applied to services such as waste or recycling.
- **Fees and charges**: For services and programs including cost recovery policies, user charges and means testing.
- **Grants:** Recurrent and non-recurrent operating and capital grants from other levels of government.
- **Contributions:** Developer contributions (both cash and non-cash).
- **Assets:** Revenue generated from the use or allocation of Council assets.
- **Entrepreneurial, business, or collaborative activities:** Established to deliver programs or services and generate income or reduce costs.
- **Other Revenue:** Including interest on investments and rentals.

Each of these income sources is discussed further below.

Rates

Under Section 155 of the *Local Government Act 1989*, a council may declare rates and charges on rateable land. Local governments may levy:

- General rates
- Municipal charges

- Service rates and charges, and
- Special rates and charges.

Under Section 158 of the *Local Government Act 1989*, a Council when declaring rates and charges, must declare whether the **general rates** will be raised by the application of a uniform rate or differential rates.

- **Uniform rates:** Where the same rate is applied across all properties.
- **Differential rates:** Differential rates are where councils set different rates in the dollar for different categories of rateable land.

Under Section 161 of the *Local Government Act 1989*, if a Council declares a differential rate for any land, the Council must:

- Specify the objectives of the differential rate including a definition of the types or classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate.
- Specify the characteristics of the land which are the criteria for declaring the differential rate.
- The highest differential rate must be no more than four times the lowest differential rate.

Due to the diverse nature of their rate bases, differential rates are used by most rural councils to address equity issues such as:

- Efficiency: The extent to which production and consumption decisions by people are affected by rates.
- Benefit: The extent to which there is a nexus between consumption/benefit and the rate burden.
- Capacity to pay: The capacity of ratepayers or groups of ratepayers to pay rates.
- Diversity: The capacity of ratepayers within a group to pay rates.

Small rural councils in particular which have large farmland components have used differential rates to offset rising property valuations relative to other property classes by setting the differential rate for farmland well below that of residential rates. Large rural councils have also used the differential system to provide rate relief to their farmland component, but those with larger commercial and industrial components have also sought to move some of the rate burden to these use types due to their higher capacity to pay.

A council may declare a **municipal charge,** which is a flat charge that can be used to offset some of the council's administrative costs. A council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the sum of the council's total revenue from a municipal charge and total revenue from general rates.

Along with differential rates, a major proportion of rural councils include municipal charges as part of their rating structure. Small rural councils have combined municipal charges with differential rates to provide a higher level of relief to farmland properties. The benefit of a municipal charge for farmland properties is that an exemption is available from the payment of a municipal charge if the land forms part of a single farm enterprise. Large rural councils have started to move away from the use of municipal charges as the regressive nature of the charge has a greater impact on their larger residential components.

The amount that a council can raise in general rates and municipal charges is governed by The Fair Go Rates System which sets out the maximum amount councils may increase rates in a year. The cap is calculated based on a council's average rates and charges and for the 2022-23 year is 1.75%.

Rate caps were introduced in 2015 and are set each year to largely reflect the consumer price index. Before 2016-17 councils were able to set their own rate increases. Since rate capping was introduced, rates have increased on average by 2.1% compared to 5.1% in the three years prior. Refer to Section 3.2 for a summary of the *Ministerial Panel Local Government Rating System Review, 2021* (pg. 28).

Councils may seek a higher cap in any year by making an application to the Essential Services Commission (ESC) and demonstrating that their long-term funding need will not be met by the cap.

The ESC approved 11 councils' higher cap applications in the first five years of rate capping, including four applications covering multiple years. Notably, eight of the 11 were rural councils. The reasons for applying for a higher cap included:

- Reducing (uncapped) waste-management charges (Mansfield)
- Infrastructure management (Pyrenees, Towong, Warrnambool, West Wimmera)
- Service delivery (Towong, West Wimmera)
- Financial sustainability (Towong, West Wimmera).

A council may declare a **service rate** or an **annual service charge** for the provision of services including the provision of water supply, collection and disposal of refuse, provision of sewage services or any other prescribed service. The benefit of levying service rates and charges is that these charges are not included in the rate cap and therefore can be set at full cost recovery. The Minister also has the power to prescribe other services to which a service rate or charge can be applied.

The majority of rural councils use service rates and charges to recover the cost of delivering waste services including collection and disposal. While councils can recover the full costs, the degree to which there is a clear understanding of these costs is likely to vary depending on the level of resources and expertise.

A council may declare a **special rate** or charge to defray any expenses or repay (with interest) any advance, debt or loan raised by the Council in relation to the performance of a function or the exercise of a power of the Council if it will be of special benefit to the persons required to pay the special rate or special charge. There is no restriction on the use of special charges however there are several conditions that must be met before the scheme can be approved. In addition, anyone subject to the scheme may object under Section 163B and if a majority of persons object to the scheme, the scheme cannot proceed in its current form.

Common uses by councils of special rates and charges schemes include funding the cost of infrastructure for a group of ratepayers who receive a special benefit such as footpaths and private streets/roads. Larger councils have also used special rate schemes to fund major policy initiatives. For example, Darebin City Council used a special rate to fund a scheme that would allow property owners to obtain roof solar and pay it off over 5-10 years. The benefit of the special rate scheme in this instance was that it was attached to the property and so was not affected by change of ownership. However due to the conditions for gaining approval for special rate schemes councils are reluctant to invest the resources and time required, especially small rural councils.

Fees and Charges

Fees and charges consist of statutory fees and fines and user fees. **Statutory fees and fines** relate mainly to those levied in accordance with legislation and include animal registrations, *Public Health and Wellbeing Act 2008* registrations for food operators and parking fines. Statutory fees must be levied in accordance with the relevant enabling legislation. The are no restrictions on the levying of user fees.

User fees relate to the recovery of service delivery costs through the charging of fees to users of a Council's services, including the use of leisure, entertainment and other community facilities, and the provision of human services such as childcare and home and community care services.

The Department of Jobs, Precincts and Regions (DJPR) released the *Local Government Revenue and Rating Plan Guide* in 2021. The guide was developed to support Victorian councils in developing a four-year Revenue and Rating Plan in accordance with the Act as part of the Integrated Strategic Planning and Reporting Framework. The Guide states that a Revenue and Rating Plan must, in addition to rate revenue, address non-rate revenue received by the council including fees and charges. Where a council sets the price of fees and charges, the Revenue and Rating Plan should outline in detail the pricing policy used to set those fees and charges, including clear rationale in cases where councils may be seen as subsidising particular groups at the expense of others.

The Guide states that pricing structures can be broadly categorised as follows:

- **Market pricing** – where prices are set based on benchmarked competitive prices of alternate suppliers. This represents full cost recovery plus an allowance for profit.
- **Full cost recovery pricing** – where prices are set to recover all direct and indirect costs incurred to deliver the service. This pricing is used where a service provided by a council benefits individual customers specifically, rather than the community as a whole.
- **Subsidised pricing** – where the full cost of providing the service is not passed onto the customer and is subsequently subsidised by other revenue streams. This can range from full subsidies (i.e., the Council provides the service free of charge) to partial subsidies, where a council provides the service to the user with a discount.

A council should determine the extent of cost recovery for a particular service consistent with the level of both individual and collective benefit that the services provide and in line with the community's expectations. These pricing structures rely on councils knowing the cost of the services they provide to make accurate assertions when setting pricing policy. Refer to Section 3.2 for a summary of the Victorian Auditor General's report examining cost recovery through fees and charges (pg. 32).

Grants

Grant revenue represents income usually received from other levels of government. Some grants are singular and attached to the delivery of specific projects, such as a capital grant to construct a library building. While others can be recurrent and linked to the delivery of services on behalf of other levels of government, such as maternal child health services.

See Appendix A for a compendium of local government grants.

Grants also include **Financial Assistance Grants** which is one of the two components of the general revenue assistance provided by the Commonwealth Government to local government. The other

component is the **Local Roads Grants**. There are six national principles relating to the allocation of grants

TABLE 4: NATIONAL PRINCIPLES FOR THE ALLOCATION OF GRANTS UNDER THE LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

Principles	Descriptions
Horizontal equalisation	Takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.
Effort neutrality	As far as practicable, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.
Minimum grant	The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State or Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.
Other grant support	Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.
Aboriginal peoples and Torres Strait Islanders	Financial assistance shall be allocated to councils in a way, which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.
Council amalgamation	Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

Source: Department of Infrastructure, Transport, Regional Development, Communications and the Arts, 2022

As noted in the table above, the **minimum general purpose grant** allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general-purpose grants to which the State/Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State/Territory on a per capita basis. This ensures that all local governments receive an allocation even if the relevant Grants Commission formula would result in a zero allocation.

Local roads grants are the second of the two components of the financial assistance grants provided by the Commonwealth Government to local government. Although local roads grants are allocated based on the relative needs of each council for roads expenditure, the Local Government (Financial Assistance) Act 1995 provides that the grants are untied.

The Commission's formula for allocating local roads grants is based on each council's road length (for all surface types) and traffic volumes, using average annual preservation costs for given traffic volume ranges. The methodology also includes a series of cost modifiers for freight loading, climate, materials, sub-grade conditions and strategic routes and takes account of the deck area of bridges on local roads. Councils categorise their local road networks according to nine broad traffic volume ranges – four for urban roads and five for rural roads. Where significant changes are made to the data previously provided, councils are asked to verify those data changes and, in some instances, provide additional supporting documentation.

The Victorian Government has set up a Rural Roads Support Package with 11 rural councils that have the responsibility for the longest lengths of local roads on a per capita basis. The funding provided $1.4 million over two years to help the councils address key road asset challenges including issues relating to the collection and use of data. The program also sets out a *Rural Roads Common Dataset Framework* which includes road network profiles and condition and management indicators. The Framework is made up of core data items to meet statutory, grant, emergency and basic asset management requirements, and optional supplementary data items as value-add data items to further support and inform asset management decision making. This framework is relevant to road management for all rural councils.

Contributions

Contributions represent funds received by a Council, usually from non-government sources. Contributions can be received from community groups to fund upgrades of council assets such as bowling greens or from developers and are usually linked to projects. Contributions can be made to a Council in the form of either cash payments or physical assets. Councils can also collect contributions from developers for open space.

In Victoria, Part 3B of the Act, amended by the Planning and Environment (Development Contributions) Act 1995 and the *Planning and Environment (Development Contributions) Act 2004*, provides councils with powers to use the following mechanisms for administering developer contributions through the planning system: development contribution plans (DCPs), infrastructure contributions (ICPs), Growth Areas Infrastructure Contribution (GAIC) and voluntary agreements. It is noted that ICPs and the GAIC are not relevant to areas comprising Rural Councils Victoria.

DCPs are a form of user-pays development contribution plan that are used to fund various items of shared infrastructure including roads, stormwater, community infrastructure, and so on. DCPs must be incorporated into a planning scheme before infrastructure levies can be collected from new development. The Development Contributions Plan Overlay (DCPO) in the Victoria Planning Provisions (VPPs) gives effect to the DCP. The council is responsible for the collection and management of levies through a DCP, as per section 46Q of the Act.

Contributions for public open space are required under Clause 53.01 (Public open space contribution and subdivision) of the planning scheme, where stipulated by the council. It only applies to subdivision applications and requires contributions for public open space. The amount required is specified in the schedule to the clause (being a percentage of the land intended to be used for residential, industrial or commercial purposes, or a percentage of the site value of such land, or a combination of both). The policy framework for open space contributions is set out in the Subdivision Act 1988 which enshrines a nominal contribution of up to 5 per cent of the site area or equivalent land value.

In the council areas comprising Rural Councils Victoria, there are currently four councils that have adopted a Development Contribution Plan, with only two councils having received contributions between 2016 and 2018.

TABLE 5: RCV MEMBER COUNCILS' DCP REVENUE 2016-2018

	RCV member councils	DCP Revenue ($) 2016-2018
Rural North West Region	Buloke Shire Council	0
	Hindmarsh Shire Council	0
	Northern Grampians Shire Council	0
	Swan Hill Rural City Council	0
	West Wimmera Shire Council	0
	Yarriambiack Shire Council	0
Rural North East Region	Alpine Shire Council	0
	Benalla Rural City Council	0
	Indigo Shire Council	0
	Mansfield Shire Council	0
	Mitchell Shire Council	$3,282,404
	Moira Shire Council	0
	Murrindindi Shire Council	0
	Strathbogie Shire Council	0
	Towong Shire Council	0
Rural North Central Region	Campaspe Shire Council	0
	Central Goldfields Shire Council	0
	Gannawarra Shire Council	0
	Loddon Shire Council	0
	Macedon Ranges Shire Council	$372,547

	Mount Alexander Shire Council	0
Rural South Central Region	Borough of Queenscliffe	0
	Golden Plains Shire Council	0
	Hepburn Shire Council	0
	Moorabool Shire Council	0
	Pyrenees Shire Council	0
Rural South West Region	Ararat Rural City Council	0
	Colac Otway Shire Council	0
	Corangamite Shire Council	0
	Glenelg Shire Council	0
	Moyne Shire Council	0
	Southern Grampians Shire Council	0
Rural South East Region	Bass Coast Shire Council	0
	East Gippsland Shire Council	0
	South Gippsland Shire Council	0
	Wellington Shire Council	0

Source: VAGO, Managing Development Contributions (2020).

The VAGO report, *Managing Development Contributions* (2020), found that while DCPs can deliver significant financial benefits over their life span, they can take a long time to set up and place a high administrative and cost burden on councils. Ultimately, the DCP program is seen to carry significant barriers and risks for councils. Issues include the:

- Cost of developing a DCP
- Time it takes to develop and have a DCP ministerially approved
- Complexity of DCPs and the expertise required to manage them effectively
- Financial risks of entering into a DCP. For example, a DCP locks in councils to deliver infrastructure projects, even if development does not proceed and the council cannot collect levies.

These barriers and risks mean that some councils do not want to participate, leaving them without a formal program to obtain development contributions and therefore missing opportunities to fund community infrastructure in this way

Assets

Income can be generated from the use or allocation of Council assets. Such assets might include legacy assets, such as buildings, equipment, airports, quarries (in some instances), and caravan parks. Income from assets can include the sale or lease of land, buildings, plant and equipment and other such physical assets.

Under Section 114 of the Act, a Council may sell or exchange land subject to publishing a public notice of its intention, undertaking community engagement and obtaining a formal valuation of the land.

Entrepreneurial, business, or collaborative activities

Under Section 110 of the Act, a Council may participate in the formation and operation of a beneficial enterprise (such as a corporation, trust, partnership or other body) in collaboration with other councils, organisations or in their own right for the delivery of any activity consistent with the Act. The process for participating in a beneficial enterprise is set out in Section 111 of the Act and includes assessing the total investment involved and the total risk exposure and ensuring that its total risk exposure does not exceed its total investment.

Local governments have opportunities to pursue entrepreneurial activities that take advantage of the assets they must create more value for the community and financially strengthen the local government. Entrepreneurial thinking can happen with any public service, but those with the greatest potential are in asset-intensive services. This is because asset-intensive services have the most potential for economies of scale. To do this, councils will need to think broadly and strategically about their assets and how they might derive value from them. This includes physical assets such as infrastructure and land, and other assets including human resources, the public and a potentially inspiring purpose the local government serves.

Assets that can serve as the foundation of entrepreneurial activities include:

- Skilled staff with particular expertise
- An inspiring goal that serves the community
- Underutilised real estate (vacant land, parking lots, or municipal buildings)
- Ability to partner with other local governments to achieve a shared goal.

However, assets alone are not sufficient for successful entrepreneurialism. Entrepreneurial thinking for a local government requires:

- Skills and resources
- Innovative thinking and leadership
- Understanding and savviness with regard to risk identification and management.

For many rural councils, internal expertise and resources for executing such an arrangement are likely to be the most significant barrier to pursuing new business opportunities.

The biggest barrier for councils in establishing entrepreneurial activities is that they do not have the spare capacity in-house to meaningfully exploit opportunities even when they are available. To demonstrate the lack of capacity rural councils face in comparison to metro councils Table 6 shows the

number of council employees per kilometre (km) of road within the LGA. This paints a picture of the limitations rural councils face in resourcing and staffing for overall property and service functions.

TABLE 6: NUMBER OF COUNCIL EMPLOYEES PER KM OF ROAD

	RCV member councils	Number of council employees (FTE)	Total length of road network (km)	Number of council employees per km of road
RCV member councils	Buloke Shire Council	160	5,381	0.03
	Campaspe Shire Council	328	4,059	0.08
	Central Goldfields Shire Council	130	1,280	0.10
	Loddon Shire Council	138	4,718	0.03
Metropolitan councils	Melbourne City Council	1,404	243	5.78
	Yarra City Council	975	216	4.51
	Moonee Valley Council	792	411	1.93
Regional City	City of Greater Geelong Council	1,712	2,280	0.75
	City of Ballarat Council	662	1,417	0.47

Source: Relevant Councils Annual Report 2021-2022. VAGO, 2020. Notes: Total reflects full time equivalent (FTE), rounded to the nearest whole number.

Other Revenue

Other revenue represents income earnt from other sources not included above.

Regarding earnings on investments, under Section 103 of the Act, a Council may only invest money in: Government securities of the Commonwealth; securities guaranteed by the Government of Victoria; and ADI, with any financial institution guaranteed by the Government of Victoria; on deposit with an eligible money market dealer within the meaning of the Corporations Act.

2.3 Findings

- The *Local Government Act 2020* (and rating provisions of the *Local Government Act 1989*) provides the framework for the establishment and operation of councils. The 2020 Act affords councils a much higher degree of flexibility than the previous Act in how local government organisations conduct their business, governed by five overarching principles.
- The new Local Government Act 2020 is also intended to create a legislative environment that embraces innovation, modern business practices and microeconomic reform. The Act no longer

contains provisions that may be considered to impede collaboration and innovation, particularly those needing elaborate corporate structures for simple service-sharing arrangements between councils. The new Act is designed to actively encourage collaboration.

- Under Section 93 of the Act, a Council must prepare and adopt a Revenue and Rating Plan that defines the revenue and rating 'envelope' within which Council propose to operate. There may be some opportunities to raise revenue through rates, fees and charges. However, as will be discussed in further detail in the following section, communities in rural and remote areas have a much lower capacity to pay increased rates and charges compared with their regional and metropolitan counterparts due to lower incomes.
- Development Contributions Plans could assist larger rural councils with higher rates of population growth to defray the costs of building new community assets. Likewise, there is potential to raise the nominal contribution rate of open space contributions to collect additional fund capital works. However, DCPs place a high administrative and cost burden on councils.
- There is an opportunity to have the Commonwealth Government amend legislation to remove the minimum grant requirements and have these funds redirected to rural councils. Likewise, improvements in the quality of road data, especially for small rural councils that have limited resources, will help to ensure they are receiving their full allocation of Local Road Grants.
- The largest opportunity appears to exist in relation to the establishment of entrepreneurial enterprises and businesses leveraging councils' existing asset and resource base. This opportunity is limited by a lack of in-house skills, capacity and catalyst funding resources and political will.
- Potential for cost-saving opportunities is also apparent, including the establishment of beneficial enterprises to deliver shared services, identification and rationalisation of property assets taking into consideration lease/license opportunities or disposal.

3. Past research

This section reviews relevant past research to determine the scope and nature of existing investigations and recommendations.

3.1 Overview

While one part of the scope of this report is to verify the currency of the previous *Rural and Regional Councils Sustainability Reform Program* report by KPMG in 2017, there are several other research projects that have explored issues relating to councils' financial sustainability and income sources either in part or in depth. A detailed analysis of the KPMG report is provided below along with summaries of any relevant, recent reports and their implications for this study.

3.2 Summary of past research

Financial sustainability in local government, KPMG (2020)

The KPMG report was issued on 19 December 2017 as a Stage 1 Project Report. Stage 1 included a sustainability analysis and recommended reform options. Stage 2 was to include preparing a full business case for options. This stage was not completed by KPMG as a later separate business case exercise titled 'Rural Councils Transformation Program' (RCTP) was conducted by Local Government Victoria in 2018-19 and again in 2021-22.

The KPMG Stage 1 project spanned 48 regional and rural councils, categorised into three cohorts (small shires, large shires and regional councils). The scope included:

- Targeted consultation and engagement with representatives of State Government, Local Government, local government peak bodies and community members in selected locations in regional Victoria.
- The development of a suitable conceptual framework to identify barriers and assess the sustainability experienced by rural and regional councils.
- Analysis of existing data sources to identify and assess key challenges and barriers to sustainability experienced by rural and regional councils.
- Development of a suite of high-level reform options to address sustainability barriers and support the long term financial and operational sustainability of rural and regional councils.
- High-level analysis of emerging trends and 'best practice' both nationally and internationally, with specific applicability to the Victorian local government sector.
- High-level analysis of the direct and indirect economic, social, and environmental value Victorian rural and regional councils bring to the Victorian and Australian economies.

The KPMG report focus was largely on taxation reform, covering rates and Victorian Grants Commission allocations. And while there was some mention of the need to develop innovative sources of own-source revenue, this was not the key focus. Key findings of the report are:

- Council sustainability is influenced by a range of factors: KPMG developed a multi-faceted Sustainability Assessment Framework which identified capability, financial performance, efficiency and effectiveness as the key drivers. Sustainability was defined as local governments having the capacity to meet the agreed service and infrastructure needs of their community and absorb foreseeable changes and unexpected shocks in the future.
- Rural and regional councils operate within different contexts: KPMG found that Victorian councils vary significantly in terms of their land area size, population size, demographic characteristics, geography, climate and economic industry.
- Rural and regional councils are the 'backbone' of their communities: KPMG highlighted research from the Australian Centre of Excellence which found that Australians valued local government more highly than they did either federal, state or territory governments with around 75% of Australians believing local government was best able to make decisions about their local area.
- Many existing programs and funds are aimed at assisting rural and regional Victoria: KPMG found that although there were several barriers to sustainability in rural and regional areas, some action had been taken by federal, state and local governments to help improve the sustainability of councils in these areas. They highlighted several state and federal government initiatives including the Victorian Regional Jobs and Infrastructure Fund of $500 million and the federal Regional Growth Fund of $472 million.
- Rural and regional councils face many common barriers to long term sustainability. KPMG identified the following barriers:
    - Financial pressures and constraints: Limited capacity to increase own-source revenue; limited community capacity to pay increased rates, fees or charges; increasing expectation of service delivery; and increasing cost base.
    - Relatively higher infrastructure and service delivery costs: Relatively higher unit costs in maintaining assets and in the delivery of some services and a higher proportion of their budgets are spent to meet demands for core functions.
    - Capability constraints and operational capacity issues: Face challenges attracting and retaining skilled, professional and knowledgeable staff, especially councils that are remote to metropolitan areas.

The key recommendations of the report were set out as short, medium and long-term reform options aimed at achieving the three key outcomes. The reform options are set out below.

State government alliance:

1. Sustainable service delivery model:
    - Support service delivery planning for each rural and regional council – short to medium term
2. Funding model:
    - Undertake a taxation and funding model inquiry to support rural and regional council sustainability – short to medium term

- Address short term critical services funding gaps – medium term

Operational transformation:

3. Regional service delivery:
   - Regional service delivery model development and implementation – short to long term
4. A modern digital strategy:
   - Support collaboration and innovation through enabling back-office transformation – short to long term
5. Small shire stabilisation:
   - Establish a Stabilisation Fund for infrastructure needs to maintain productivity and liveability in rural Victoria focussed on at-risk small shire and at-risk communities – medium term

Strong local governance:

6. Building local capacity:
   - Improve knowledge and capability of council staff – short to long term
   - Support the development of workforce plans for each rural and regional council – short to long term
   - Develop a program and support for councillors to better equip councillors with the knowledge and tools to meet community expectations – short to long term
7. Innovative community engagement:
   - Establish a fund to help local governments identify innovative ways to efficiently and effectively engage with the community.

Since the release of the report, the Victorian state government has mainly focussed on Operational Transformation (especially options 3 and 4 listed above). The $20 million Rural Councils Transformation Program (RCTP) funded in the 2018-19 State Budget sought to incentivise the implementation of large-scale transformative projects on a regional level, such as joined-up service delivery, corporate services, procurement and asset management. The program aims were to:

- Improve the financial sustainability of rural and regional councils by achieving economies of scale including through regional service delivery or collaborative procurement
- Promote more efficient and improved service delivery through collaboration and innovation
- Facilitate benefits for rural and regional communities, with priority given to those for rural communities
- Demonstrate potential efficiencies to be gained through regional service delivery

Two rounds of funding in 2018-19 and 2021-22 have been awarded with the focus of Round One ($18.5 million) on large-scale collaboration and resource-sharing arrangements projects and Round Two ($6.93 million) on smaller-scale new technology platforms and solutions projects aimed at freeing up council resources to focus on important frontline services. Some councils and industry experts have indicated that this initiative was not successful due to overcomplication of the application process and the limited

scope of projects councils could pursue. Improvements to supporting resource-sharing arrangements would be for councils to have greater autonomy over the kinds of projects they wish to initiate.

The introduction of the *Local Government Act 2020 (the Act)* has also assisted in actioning option 6. Building local capacity, in particular, all councils are now required to have a four-year Workforce Plan to support the delivery of the Council Plan. The new Act has also supported option 7. Innovative community engagement, with all councils required to have a Community Engagement Plan to guide deliberative engagement with their communities.

KPMG identified as a barrier, financial pressures and constraints. In particular, the limited capacity of rural and regional councils to increase own-source revenue and limited community capacity to pay increased rates, fees or charges. Option 2. Funding model is the only recommendation addressing the revenue side which recommends undertaking a taxation and funding model inquiry to support rural and regional council sustainability being the key action. To date, there has been no action on this recommendation.

Assessing local government revenue raising capacity, Productivity Commission Draft Research Report (2007)

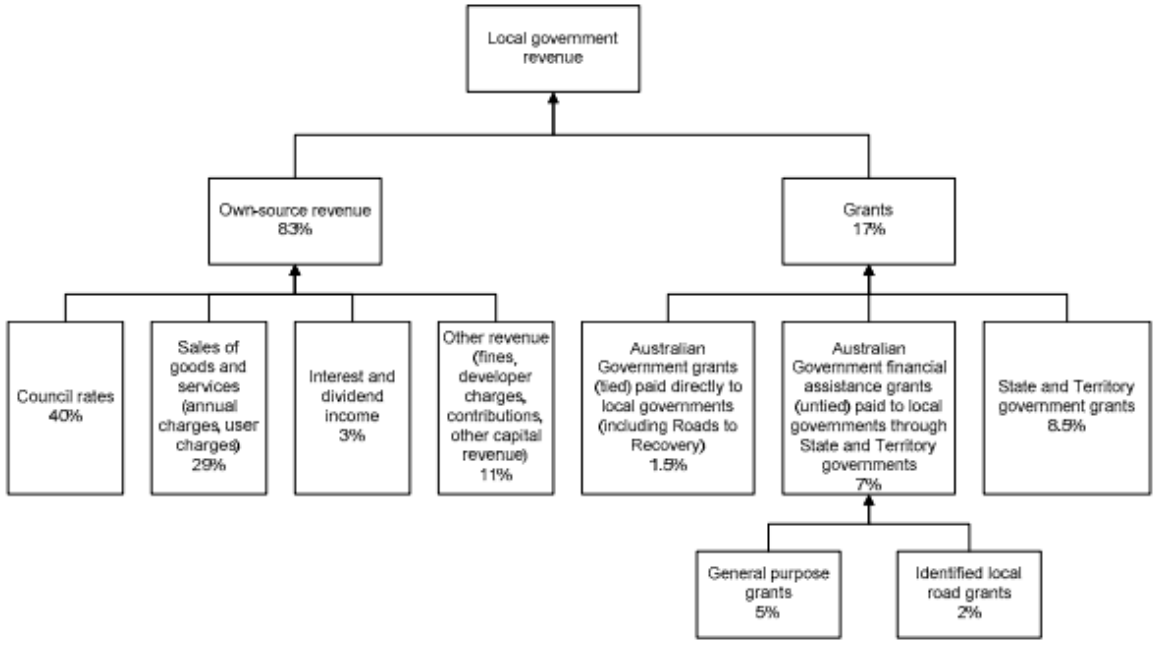
The Productivity Commission was requested to undertake research assessing the capacity of local government to raise revenue including:

- The capacity of different types of councils (e.g., capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time;
- The impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government; and
- The impact of any State regulatory limits on the revenue-raising capacity of councils.

The report found that local governments' principal source of revenue is own-source income, representing 83 per cent of total revenue, aggregated at the national level, which comprises largely of property rates and fees shown in The resources required, and risks confronted, for these options vary greatly, as does the amount of potential income they can generate for each council. A risk return appraisal summary is included below in Figure 1.

Figure 1. At the time of the report, property rates and fees as a proportion of total own-source revenue have decreased slightly over time.

FIGURE 2: SOURCES OF LOCAL GOVERNMENT REVENUE IN AUSTRALIA (2005-06)



Source: Assessing local government revenue raising capacity, Productivity Commission Draft Research Report (2007)

The Productivity Commission defined revenue raising through two approaches. The first is the fiscal capacity, measured as the aggregate income of a local community. The second is based on the willingness of the local community to pay for services provided by local governments. The report states that in practice, the amount of revenue that a local government can raise from its community is likely to be dependent on what the community wants its council to do.

The Productivity Commission found that urban local governments tend to draw on only a small proportion of the aggregate income of their communities while rural and remote councils tend to draw more heavily on the income of their communities. The major constraint on the revenue raised by local governments was identified to be the democratic process itself, reflecting their communities' willingness to pay.

Roadmap to financial sustainability for Local Governments in NSW, John Comrie (2013)

This report was prepared for the New South Wales Independent Local Government Review Panel in 2013 and discusses financial reforms that may be appropriate to achieve councils operating in an ongoing financially sustainable manner. The report made several observations and recommendations for NSW local governments relevant to the Victorian context in helping councils to achieve financial sustainability.

The report recommended building the expertise of councils to ensure responsible financial decisions. This includes both building technical knowledge and understanding of officers and council members, and recognition and acceptance by councils that their own decisions about service levels and revenue raising are critical factors in their long-run financial performance.

It is highlighted that NSW local governments have extraordinarily low levels of debt. Councils in Victoria are in similar positions when looking at levels of debt. While it is recognised that raising more debt is unlikely the answer for councils that have significant operating deficits, many councils that have financially sustainable service levels and revenue raisings could better serve their communities by making greater use of debt. In all states except NSW and Victoria local governments can raise borrowings through state central borrowing agencies which leads to lower borrowing costs for their local governments and is unlikely to impact the assessed credit rating of these states. The report states that implementing such arrangements would have very little downside and result in financial savings for councils but more importantly, institutional arrangements could be structured to support and provide guidance to councils in the more appropriate use of borrowings.

Consideration is given to reducing costs and improving efficiency wherever possible and not only focussing on generating more revenue. While the point is made that there is potential for savings to be achieved through improved contracting and materials purchasing agreements, the strongest recommendation for councils to reduce costs is to reduce some services at times when higher demands arise for others.

Lastly, the report finds that increases in rate revenue are likely to be a key necessary component of strategies to improve the financial sustainability of many councils. If rate caps or pegging is to continue councils that need additional rate revenue must not be discouraged from making applications for increases beyond the specified cap. While increases should be justified the processes should not be so onerous that they discourage smaller, resource-poor councils from making effective applications.

Local Government rating system review, Report of the Ministerial Panel (2020)

The Review Panel for the rating system review were focused on understanding the application of the existing Victorian rating system and determining how to improve its fairness and equity. Councils collect rate payments from home and business landowners to fund important local infrastructure and services. The Panel reviewed reports of the Victorian Auditor-General, reviews from other jurisdictions, academic reports and conducted consultation, receiving over 200 submissions. Elements of the local government rating system specific to the rate cap provisions under Part 8A of the *Local Government Act 1989* were out of scope for this report and subject to a separate statutory review.

Findings

The Panel provided 56 recommendations on the local government rating system. In addition to the recommendations, the Panel included a discussion on rating exemptions in Victoria. A summary of key rate exemptions in Australia and New Zealand are shown in Figure 3.

FIGURE 3: KEY RATE EXEMPTIONS PROVIDED BY AUSTRALIAN STATES AND NEW ZEALAND

	Govt. Land	Charitable Use*	Religion**	Indigenous Land	Transport^	Conservation	Mining
VIC	✓	✓	✓		✓		✓
NSW	✓	✓	✓	✓	✓	✓	✓
ACT	✓	✓	✓	✓			
QLD	✓	✓	✓	✓	✓		
NT	✓	✓	✓	✓	✓		
WA	✓	✓	✓				
SA	✓						✓
TAS	✓	✓		✓		✓	
NZ	✓	✓	✓	✓	✓	✓	

* *Victorian legislation also separately exempts ex-servicemen (RSL) clubs, however other states and territories do not list them separately from other charitable institutions.*

** *Where properties used for a religious purpose are listed as a separate exemption*

^ *Public land used for transport infrastructure, including toll roads and railway lines.*

Source: Local Government system review, Report of the Ministerial Panel (2020)

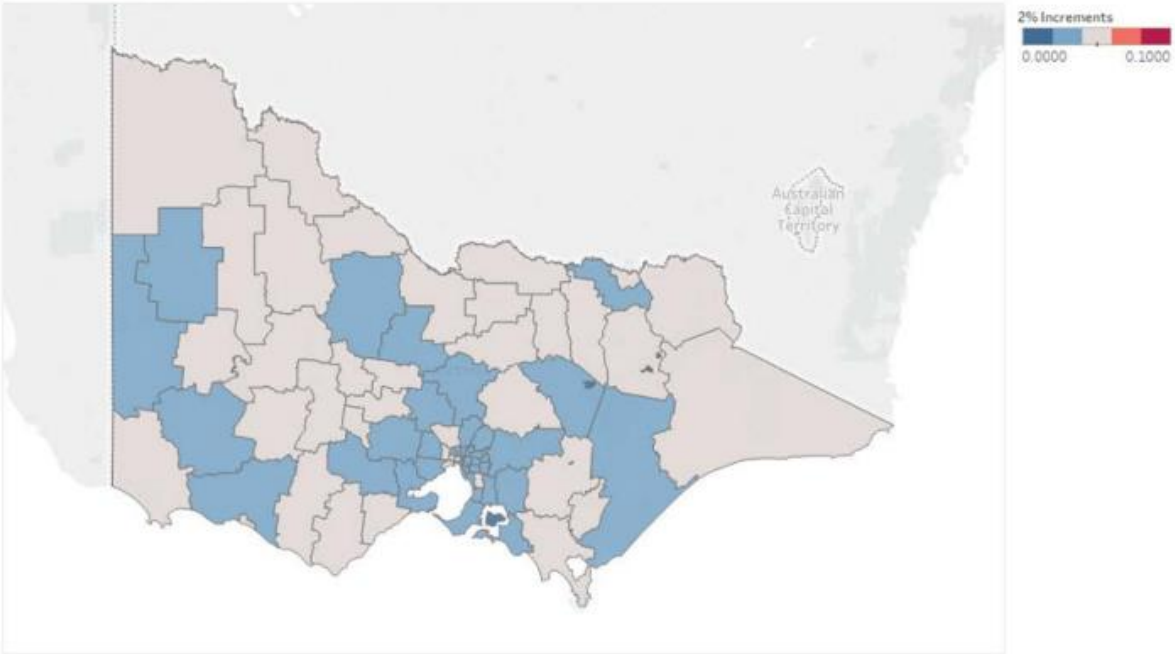
There were discussions and recommendations around three key exemptions relevant to this report.

- Payment in lieu of rates (PiLoR): The PiLoR system was said to be an administrative burden on some councils with the complexity of the system creating uncertainty for both councils and electricity generators. When the PiLoR system was established at the time of Victoria's electricity assets being privatised, no clear explanation was provided as to why a separate rating arrangement was created while the system in place in the 1990s has remained largely unchanged. The report concluded that while private electricity generators are important providers of essential services, there is an absence of clear rationale behind these arrangements and it is unclear why councils should continue to provide effective rate concessions by way of a complex, specialist scheme that results in inequitable revenue outcomes across many communities.
- Mining: The ongoing relevance of mining as a statutory exemption to rating in Victoria was discussed in the report. The results of submissions made it clear that the public were unclear why a for-profit enterprise which sometimes had detrimental consequences to council roads and infrastructure should be subsidised by local ratepayers. The rating exemption for mining has remained unchanged since it was inserted into the first Local Government Act of 1878. The report outlined arguments against retaining this exemption including:
  - Mining is a commercial activity on land and therefore should be treated similarly to other commercial activities on rateable land.
  - Quarries which are covered by a different license in Victoria, are rateable.
  - Mining activities use municipal services like other land uses; and
  - Most other states in Australia (except NSW and SA) do not offer such a rating exemption.
- Religious exemptions: The report discusses exemptions for residences of ministers of religion and places for their education and training. The report sets out that these exemptions were questioned during consultation since residences provide exclusive benefits. The report introduces the idea that

rating exemptions should be linked to the concept of public benefit and states that this exemption would not meet the principle of public benefit owing to its private or exclusive use.

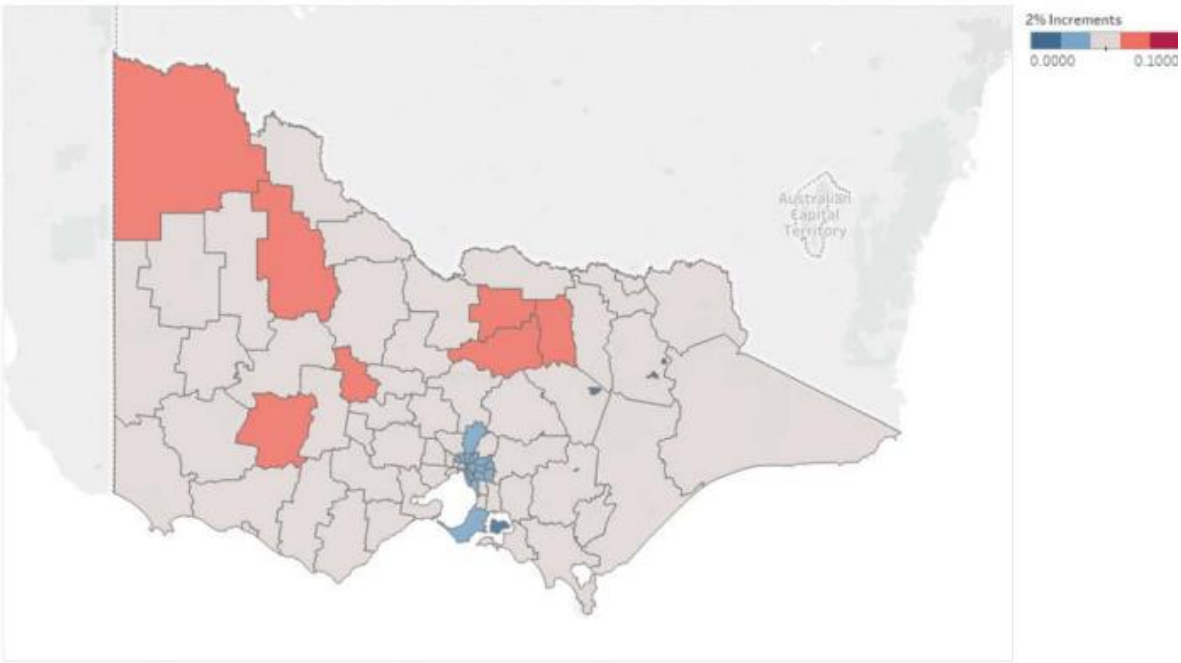
The report also made conclusions about external factors contributing to councils' capacity and capability highlighting inequities between rural and metropolitan councils in both revenues generating capacity and service and infrastructure responsibilities. There are several issues that contribute to the inequities between rural and metropolitan councils in regard to rates. Figure 4 shows the percentage of household income spent on rates in both 2011 and 2016. Figure 5 shows the disparity between metro and rural councils in terms of resident's income to rates ratio in 2016

FIGURE 4: PERCENTAGE OF HOUSEHOLD INCOME SPENT ON RATES (2011) BY LOCAL GOVERNMENT AREA



Source: Local Government Rating System Review Report (2020)

FIGURE 5: PERCENTAGE OF HOUSEHOLD INCOME SPENT ON RATES (2016) BY LOCAL GOVERNMENT AREA



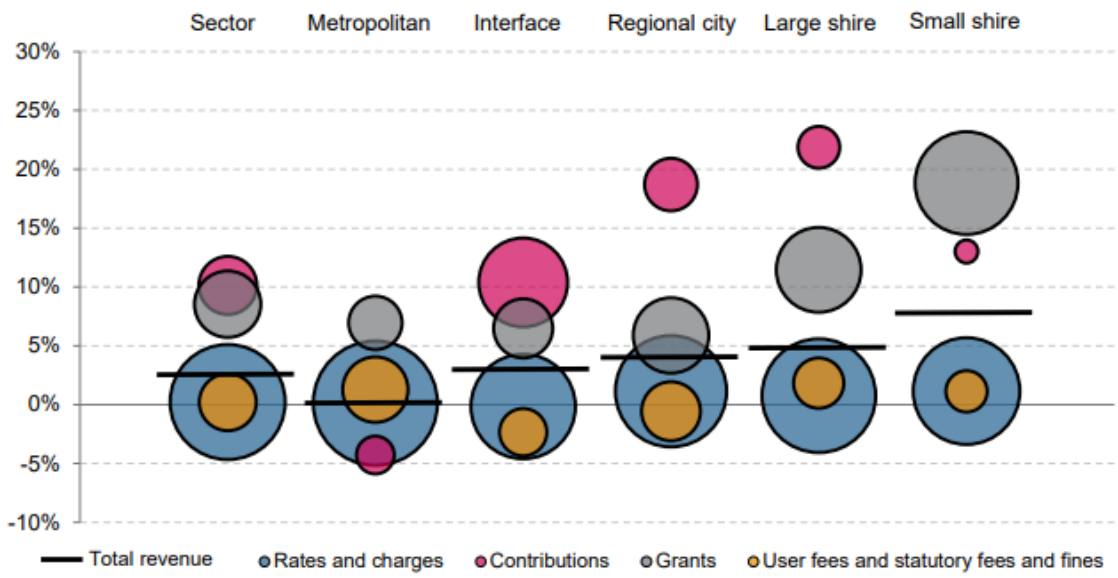
Source: Local Government Rating System Review Report (2020)

The Outcomes of Rate Capping, Essential Services Commission's (2021)

The Essential Services Commission has completed two outcome reports since the introduction of rate capping in the 2016-17 financial year. The first report was released in 2019 and the most recent report was released in 2021. The report includes the first few months of the coronavirus pandemic and looks at changes in the rates and charges paid by Victorian ratepayers during this time and focuses on the Victorian local government sector as a whole. The report aims to identify any impacts or trends that might be emerging across the local government sector to help inform the reviews of the rate capping system required to be undertaken every four years.

The report included key observations around rates, revenue, financial health and effects of the pandemic. The report found that growth in the sector's revenue from rates and charges slowed due to rate capping, however, revenue from developer contributions and government grants grew faster. The report states that councils are more dependent on these other sources of revenue for revenue growth. Figure 6 is taken from the report and shows both large and small shires increased reliance on government grants in the first three years since rate capping was introduced.

FIGURE 6: AVERAGE ANNUAL GROWTH IN REVENUE PER PERSON IN THE FIRST THREE YEARS OF RATE CAPPING



Source: Essential Services Commission, The Outcomes of Rate Capping Report (2021) based on council annual reports and ABS Estimated Resident Population data.

While the report found that in general, the financial health of local governments as a whole remained strong, councils may face some difficulties in maintaining long-term sustainability if revenue growth slowed due to the COVID-19 pandemic.

Out of Victoria's 79 councils, only 11 were approved to increase their average rates by more than the Minister's cap.

Fees and charges – cost recovery by local government, Victorian Auditor General's Office (2010)

The Victorian Auditor-General's Report on fees and charges assessed whether councils are effectively managing the cost of their community services, particularly those that have an associated fee or charge. The service costing and pricing policies of services were examined at four councils:

- Whitehorse City Council
- Frankston City Council
- City of Ballarat
- Campaspe Shire Council.

The report found that none of the four councils examined had adequate policies on service costing and fee settings and none provided sufficient guidance to staff on the procedures required to achieve good practice. Many individual business units within councils had developed their own approaches to fee setting and cost management. Only Campaspe Shire Council had knowledge of its full costs but did not apply this when setting its service fees and charges. None of the councils examined were able to accurately determine the full extent of subsidisation of their services.

Overall, there was a lack of best practice being applied within all councils when it came to setting fees and charges for council services and a lack of staff awareness about the requirements of the competitive neutrality policy.

Best practice principles in determining user fees and charges were set out as requiring councils to:

- Set service cost and quality standards.
- Consider value for money.
- Consider community expectations and values.
- Balance the affordability and accessibility of their services.

A key consideration arising from the report was that benchmarking of fees against other councils or private sector service providers should be undertaken and fees should be set in light of these considerations as well as adjusting fees based on consideration of full costs, service efficiency, affordability, equity and accessibility.

Shared Services in Local Government, Victorian Auditor-General (2014)

In 2014 the Victorian Auditor-General undertook an audit of shared services for Victoria's 79 local governments. As councils share many common statutory responsibilities and carry out similar functions and activities, opportunities were identified for councils to work together to jointly deliver services and share costs and resources. Shared services were recognised as having potential to efficiently use council resources and improve service offerings. The audit defined shared services as two or more local councils jointly providing:

- External services—services that councils provide to the local community, such as Meals on Wheels, waste collection and community and library services
- Back-office functions—functions that support external services, such as information technology, finance, legal, payroll, and human resources
- Procurement—purchase of goods and services.

The audit found that most councils are currently involved in some form of shared service initiatives with many either considering or engaging in negotiations toward shared service initiatives. While shared services were identified as a key aspect of council response to cost pressures, the audit identified a number of challenges in implementing shared services, the most significant being the loss of autonomy or local control from councils. Other identified challenges included a lack of clarity around the benefits of shared services initiatives and concern about the costs of establishing and maintaining a shared service initiative.

The audit also recognised that councils lacked an understanding of how the benefits of shared services were to be measured and often could not quantify expected savings or actual cost savings from implemented shared services delivered. This led to the recommendation that support and guidance are needed to drive the take up of shared services. The report makes recommendations to councils that they:

- ensure future initiatives are soundly based, including clearly identifying expected benefits and costs and how they will be measured

- develop and implement comprehensive monitoring, evaluation and reporting on shared services, supported by reliable baselined data and clear and measurable outcomes.

Since this report, the Collaborative Council – Sustainability Fund Partnership (CCSFP) Program was established to support councils to collaborate on projects focused on environmental sustainability and improved services. The program invited groups of councils to submit joint applications to undertake a business case, feasibility study or proof-of-concept initiative to receive funding up to $75,000.

3.3 Findings

Since the release of the KPMG report, there have been several changes to the Victorian local government environment which have implications for rural councils and their financial sustainability increasing pressures on already resource-lacking local governments. These changes include:

- Rate capping: Rate capping was introduced in 2016-17 with the Minister for Local Government setting the local council rate cap for each financial year which largely mirrors the consumer price index. Prior to 2016-17 councils were able to set their own rate increases. Since rate capping was introduced, rates have increased on average by 2.1 per cent compared to 5.1 per cent in the three years prior.
- Local Government Act 2020: The introduction of the new Act has brought a longer-term focus to financial management as well as specifically making the elected officials responsible for the ongoing viability of their council. All councils are now required to have a 10-year Financial Plan and 10-year Asset Plan. Other supporting financial plans include a four-year Revenue and Rating Plan and a four-year Workforce Plan.
- COVID-19: In Victoria local governments have been significantly impacted during the COVID-19 pandemic and its ongoing social and economic effects. Councils faced high-risk customer-facing services closed for up to 12 weeks each time. Councils were unable to access the federal government's Job keeper scheme and were pressured to retain staff on full pay even if they could not work. Fees and charges were significantly impacted with user pay services closed and income-raising activities suspended during these periods. While the state government provided grant incentives (mostly capital) the resourcing and work practices of councils have been forever changed.

Other implications from past research include:

- Rural councils continue to rely more heavily on the income of government in comparison to metropolitan councils. Rural Councils also continue to have a disproportionate reliance on government grants.
- While revenue raising is important, councils should look to reduce costs and improve efficiency wherever possible. The implementation of this may result in councils having to make difficult choices in offering fewer or reduced services when higher demands arise for others.
- Shared services continue to remain relevant as a cost saving mechanism for councils however lack of understanding of their benefits and how to implement them remains an issue among councils. The shared services pilot program was not considered a success by many councils; however, the execution of the application and funding system may have been the biggest barrier to its success.

- Very few councils can gain approval to increase their average rates by more than the Minister's designated cap.
- Several recommendations made within the Local Government Rating System Review (2020) were not adopted by the government but continue to remain relevant. Most relevant to this report was the recommendation for rating of electricity generators to be moved under the Local Government Act.
- There are several statutory exemptions that may not be relevant or justified today including mining and residences of ministers of religion and places for their education and training.
- Fees and charges are not implemented in accordance with best practice principles across many local governments and opportunities exist to increase efficiencies in this area and recover the full costs of services provided by councils.

4. Best-practice audit

A best practice audit was conducted to explore and identify innovative own-source funding models either currently in use or which have been identified as opportunities to support the ongoing financial sustainability of local government.

4.1 Overview

To identify own source income options a review of council financial reports was undertaken along with consultation with councils and agencies through a survey and extensive interviews. A desktop review of international best practice examples in relevant jurisdictions was also conducted.

4.2 Summary of audit and survey process

Financial plan audit

An audit of the council's annual statements was undertaken to assess the level of income generated by 'other' income sources as listed in the 2020/21 financial year reports. The 'other' income category was compared against councils' total income for 2020/21 to calculate the percentage of total income that the 'other' income generated for each of Victoria's 79 local governments. The other income sources that were listed in each councils' financial statements were reviewed to identify potential income sources considered to be innovative. Figure 7 shows the wide disparity of councils' 'other' income revenue in Victoria.

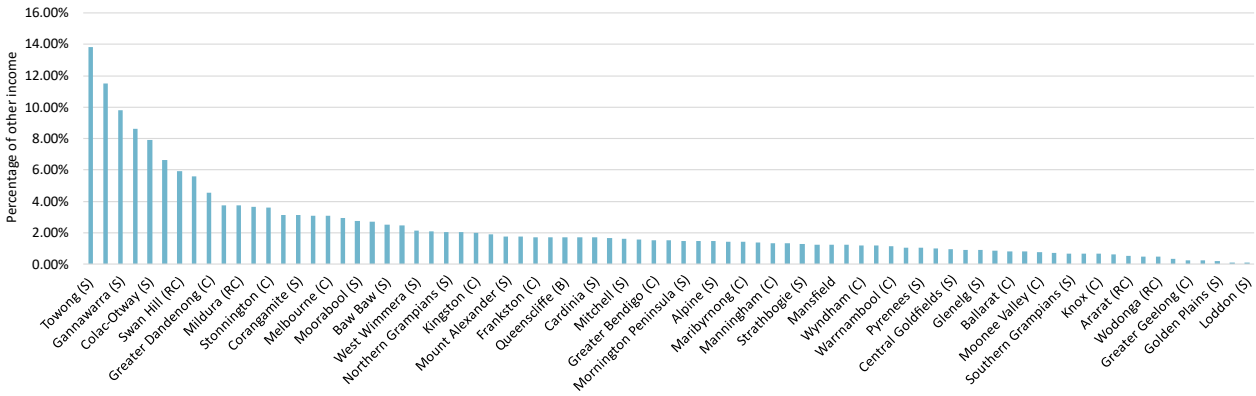
Due to the financial reporting process being standardised across Victoria, the income listed under each council's category of 'other' was very high level with little to no indication if innovative income sources were being used by councils. Common other income sources listed by councils included interest, property rental, dividends, and reimbursements. Examples from a random group of RCV member councils listed other income sources are shown in Table 7.

TABLE 7: EXAMPLES OF RCV MEMBER COUNCILS 'OTHER' INCOME SOURCES

Council	Total income (2021)	Other income (2021)	Percentage 'other' income of total income	Other income sources
Alpine Shire	$35,327,000	$515,000	1.46%	Insurance claim reimbursement, interest on investments, rent, non-monetary services received
Campaspe Shire	$84,315,000	$1,315,000	1.56%	Interest, investment property rental, reimbursements

Mount Alexander Shire	$46,969,000	$820,000	1.75%	Interest, fuel tax credits, rates and valuation reimbursements, debt collection, insurance claims, rental

FIGURE 7: COUNCIL'S 'OTHER INCOME' AS A PERCENTAGE OF TOTAL INCOME (FY 2020/21)



Source: SGS Economics and Planning using data from Council Annual Reports (FY 2020/21)

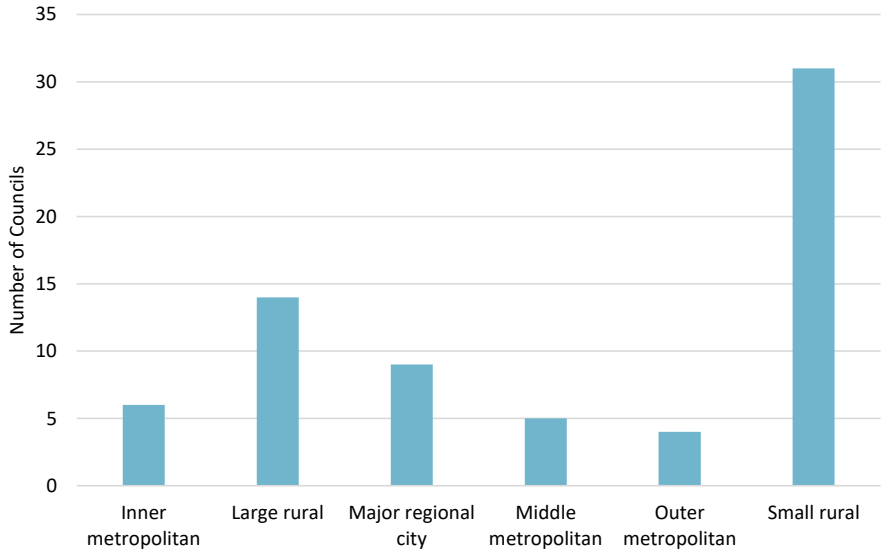
Alternative income sources survey

A survey was distributed online across a wide variety of local government networks in Australia including the Local Government Information Unit (LGIU), Local Government New South Wales, FinPro, Australian Local Government Association and directly to councils. The survey asked local governments across Australia at the metro, regional and rural level to share examples of own-source income options beyond rating, fines, fees, grants and contributions.

The survey was open between July 18 to August 31, 2022, and collected 68 responses across local governments from Victoria, New South Wales, South Australia and Western Australia. A breakdown of the survey respondents by council type and location is shown in Figure 8 and Figure 9.

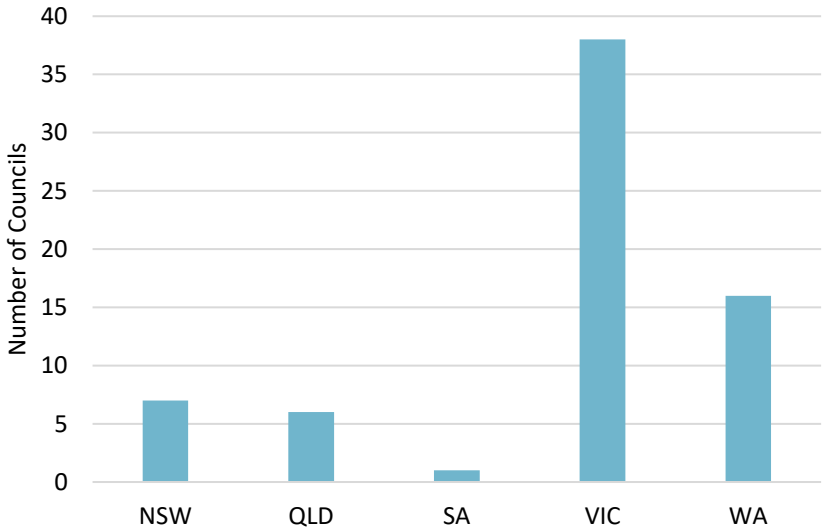
Following the survey, 20 interviews were undertaken with councils, industry professionals and peak bodies and organisations, including 2 workshops with local government experts on August 16 and 18, 2022. The interviews were conducted with local government survey respondents to elicit further detailed information on existing practices and potential opportunities for raising additional revenue via alternative own-source income streams.

FIGURE 8: SURVEY RESPONDENTS BY COUNCIL TYPE



Source: SGS Economics and Planning, 2022.

FIGURE 9: SURVEY RESPONDENTS BY STATE



Source: SGS Economics and Planning, 2022.

4.3 Survey findings

There were many common themes across local governments of all descriptions in Australia and the 'own source' income streams that were listed in survey responses and discussed through interviews.

Many councils' ability to generate alternative income sources was largely dependent on the council's legacy infrastructure and assets available. That is infrastructure that council has owned for a long

period and is often unique to a select few local government areas. Examples of legacy infrastructure owned by councils that generate income include but are not limited to:

- Quarries - Several councils own and operate quarries that allow councils to generate income through the sale of material. The operation of quarries by councils also drives down the costs of repairs to roads while some councils have gone further to sell their services to other nearby local government areas.
- Caravan parks and campgrounds – A large number of councils own caravan parks or campgrounds that are either run by council or leased to private operators with some councils owning multiple parks.
- Airports – While there are very few examples of airports owned by local governments, they can generate a significant stream of their own source income.
- Galleries and theatres – These vary in size and scale across local government contexts but can often generate revenue from ticket sales and events.
- Commercial property – Very few councils are in the position to actively acquire commercial property, but many councils have existing property holdings that are leased commercially and generate income. Existing commercial property holdings consist mainly of shops and office spaces.

Councils often have wider property portfolios that are often underutilised. Councils recognise that selling these properties is a one-off cash injection that may not be the highest and best use of the property or the maximum return that the investment could achieve.

While renewable energy generators are not currently rateable by local governments in Victoria, the *Electricity Industry Act 2000* allows electricity generators to negotiate payments made to local councils. Payments are made annually to councils and are based on a combination of a fixed charge and a variable charge based on the capacity of the power station in megawatts.

Councils commonly invest any surplus cash in fixed term deposits. Over recent years leading up to 2022, interest rates have been at an historical low and so this option has been generating very little income. Alternatively, some larger councils will use surplus cash to push down rates for residents. One survey respondent identified that they have been exploring the idea of managed funds for the investment of surplus cash.

Some councils have grown to retain staff with specialised skills and operate some services with great efficiency. This has allowed some councils in this position to grow this resource and sell their services to neighbouring councils. This provides both income generation for the council providing the service and relief on internal staffing resources and assets in council receiving the service.

In the follow-up interviews conducted with councils, there was an overwhelming response that the biggest boundaries for councils pursuing alternative income methods were internal resourcing and upfront costs. Councils across Australia are already operating at extremely fine margins with very little room for new investments and projects that require extra time, money and staff.

Industry experts referred to the methodology of Financial Assistance Grants (FAGs) distribution and the disparity between rural and metro councils.

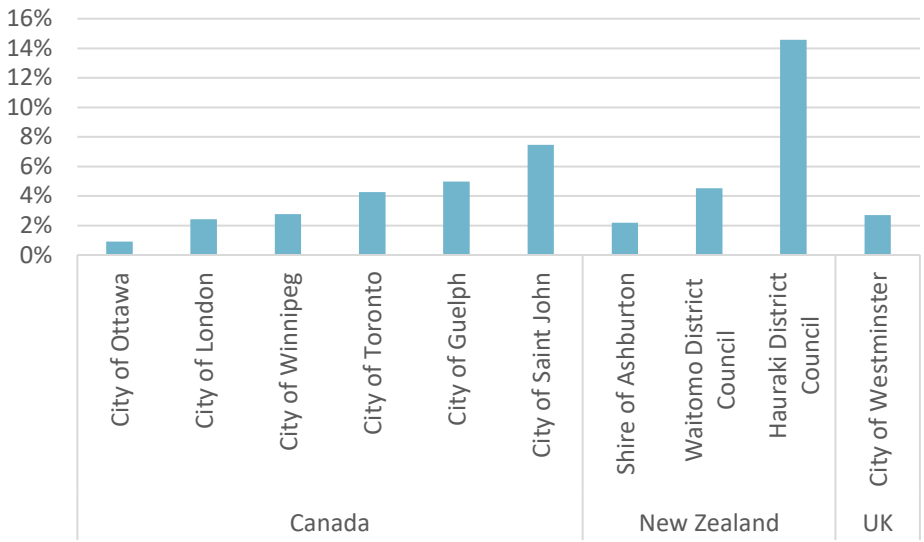
Throughout the discussions with councils around alternative income sources, a common point that arose was opportunities for cost savings in councils. Councils that were interviewed often made the point that costs saving measures are sometimes more appealing to councils and easier to implement.

Shared services were one method of cost savings that arose from discussions with councils, and it was evident that there remains a lot of interest in this area.

4.4 International examples

A desktop review was undertaken to examine financial reports of local governments internationally across the UK, New Zealand and Canada. Similar to the annual financial report audit of Victorian local governments, an audit of a variety of international council's annual statements was undertaken to assess the level of income generated by 'other' income sources as listed in the 2020/21 financial year reports. The percentage of total income that the 'other' income generated for each international local government was calculated and is shown in Figure 10. The City of Westminster was the only local government included from the UK within in Figure 10 as other UK local governments did not include 'other income' as a revenue category in their annual financial reports.

FIGURE 10 INTERNATIONAL COUNCIL'S 'OTHER INCOME' AS A PERCENTAGE OF TOTAL INCOME (FY2020/21)



Source: SGS Economics and Planning using data from annual local government reports (2020/21 FY)

The UK

Typical income sources for UK local governments include government grants (such as for social care), council tax (i.e. rates on residential properties), business rates, sales, fees and charges. [1]

Several other income sources can be potentially leveraged by the municipalities, primarily:

- Council assets
- Selling commodities, and

[1] Atkins & Hoddinott (2022) *Local Government Funding in England* https://www.instituteforgovernment.org.uk/explainers/local-government-funding-england

- Trading services.

Council assets include buildings, parks and open spaces. As an example, Oxford City Council makes £7 million annually from their assets and £5 million from developing council-owned and operated private rental housing.[2] Basingstoke and Deane Council only make 30 per cent of their income from grants and taxes and the remaining 70 per cent is made up from a commercial property portfolio, investment income and purchase of the freehold of shopping centres. [3]

UK councils can also earn revenue through the sale of commodities such as recyclables and other waste. South Holland District Council has a contract for the processing of recyclables which generates an additional annual income of £500,000.[4]

Another income source utilised within the UK is the trading of services between councils or winning new business to deliver services to other parts of the public sector. One example of this is the launch of two service delivery companies (for bereavement and waste) by Cheshire East Council. These companies are owned solely by councils and chaired by councillors.[5]

The cost of waste disposal continues to climb significantly in Victoria and waste collection remains a core function of councils. Opportunities for Victorian rural councils to both reduce costs in relation to waste and return profits from recycling would be extremely beneficial. Limitations within Victoria to this include the willingness for the private sector to increase prices in relation to waste contracts but also the efficiency of Victoria's waste and recycling systems.

Case Study: Commodity Sale

London Borough of Harrow recently used an eBay-style system to host an online auction for the sale of its recyclables. A waste management firm, Viridor, bought 100 per cent of the council's dry recyclables. Council received £36 a ton for material, along with a share in any profits above a baseline sell-on price of £78 a ton. This generated £900,000 from a total 19,000 tons.

Canada

Across Canada, municipalities generally gain revenue from property taxes, user fees, development charges, water and sewer fees, investment income, provincial and federal grants/transfers, licences and permits. Other sources of income can vary according to the legislation and governance of different provinces and municipalities but might include:

---

[2] Local Government Association (n.d.) *Emerging Council Innovation* https://www.local.gov.uk/sites/default/files/documents/emerging-council-innovati-861.pdf
[3] Local Government Association (n.d.) *Emerging Council Innovation*
[4] Local Government Association (n.d.) *Emerging Council Innovation*
[5] Local Government Association (n.d.) *Emerging Council Innovation*

- Revenue sharing and fuel tax
- Business taxes
- Accommodation levies
- Land transfer taxes
- Vehicle registration taxes
- Billboard and amusement taxes
- Electricity and natural gas taxes
- Poll taxes
- Cannabis taxes.

Case Study: Airbnb and Accommodation

Ontario has a *Transient Accommodation Tax* which allows for a municipal accommodation tax. It falls largely on visitors, allowing cities to be compensated for providing them with services. This tax is already in place in Winnipeg, Montreal and Charlottetown, as well as across several municipalities in British Columbia.

Such a tax would be best coordinated regionally to prevent visitors from staying in other cities without an accommodation tax.

As well as this, Canada has entered into an Airbnb tax agreement since 2018, where every Airbnb listing pays a hotel tax or municipal accommodation tax. It has been estimated that if this tax were in place in 2017, Ottawa would have received around $850,000 in additional tax revenue from the platform's 2,700 hosts.

Research from IMFG has found that if properties listed on Airbnb are charged a commercial property-tax rate (which is higher than a residential property-tax rate), it will result in significant municipal revenues.

The Airbnb tax is feasible to be implemented and operate within the Victorian context as this is an agreement entered into with Airbnb. The tax is charged to users of the Airbnb platform for each booking and is calculated as a charge on top of the accommodation and service fee for any stays shorter than 30 nights.

New Zealand

Local councils in New Zealand raise most of their funding through rates, investments, fees and charges. Other revenue is raised through development contributions, petrol taxes, subsidies and grants. Recent legislation also allows for the collection of a regional fuel tax.

In the financial year 2011/12, about 15 per cent of total council revenue came from central government subsidies and grants. High-growth councils tend to be less reliant on rates than slower-growing

councils. Low-growth and rural councils, on the other hand, tend to be more reliant on the grants and subsidies provided by the central government.

There are some emerging alternative income sources in New Zealand, including impact infrastructure funds such as Te Puna Hapori. This fund invests in private credit and hybrid investments on key community infrastructure assets (healthcare, education, water, housing) with an average investment size of $5-10 million. It ensures interests are aligned with the local community (as represented by local government) through co-investing and contractual agreements but is a privately run investment fund.

Case Study: Special Purpose Vehicles

"Special Purpose Vehicles" (SPVs) are used to fund and construct infrastructure (water, environmental, transport, road and community) to support housing and urban development. The tool evolved from the SPV used in Milldale which raised $50 million for supportive housing infrastructure. It has now been embedded into the *Infrastructure Funding and Financing Act 2020*.

The Act will complement existing ways of financing infrastructure such as targeted rates and development contributions. Levies will be applied to a defined geographic area (like property rates) with the responsible council collecting the levy and transferring it to the SPV. Once constructed, the responsible council or infrastructure provider will take over the infrastructure and be responsible for its ongoing operation.

4.5 Findings

- International local governments that were examined and had relevance to the Victorian context face similar funding challenges and often strive for innovative funding methods. Local governments across the UK, Canada and New Zealand also have low levels of 'other' income sources and maintain reliance on funding from government grants.
- Waste is an area recognised by many to have potential for local governments as this area is a service delivery that carries with it many costs. Successful examples of generating income from waste and reducing costs for the service should be considered in the Victorian context.
- Many rural local government areas position themselves as tourist destinations and have experienced the ongoing effects of short stay holiday accommodation on local housing markets. Opportunities exist, with examples from Canada for councils to tax services such as Airbnb and generate income for councils.

5. Alternative income source options

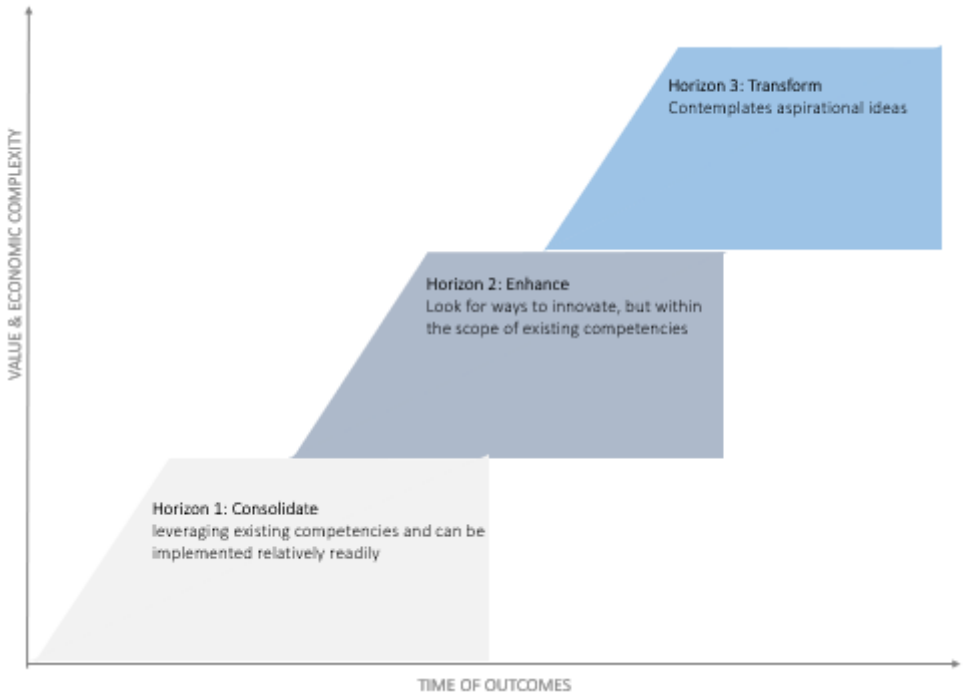
This section synthesises the findings from the research tasks undertaken and presents a range of revenue-raising opportunities for consideration by RCV members. This section also provides a proposed agenda for further action.

5.1 Overview of findings

A 'Three Horizons' framework has been used to categorise identified opportunities, distinguishing opportunities based on the degree to which they are 'visionary' or 'pragmatic'.

- The **first horizon** within the context of the current project is concerned with opinions that leverage the existing competencies of a local government organisation, and which can be implemented relatively readily with little additional strain on resources.
- The **second horizon** involves looking for ways to innovate but within the scope of existing organisational operations and competencies. This often involves diversification into related service areas.
- Planning to the **third horizon** requires the organisation to lift its sights to new opportunities which might be quite distant from the current core business, but which draw on the competencies, skills and endowments which underpin current activities.

FIGURE 11: THREE HORIZONS FRAMEWORK



Source: SGS Economics and Planning, 2022

Importantly, despite extensive investigation, no 'quick-win' or cover-all solutions to local government financial security were discovered. Instead, the options presented offer opportunities that will be suitable to councils based on their own unique geographic, economic and strategic contexts.

Implementation of some of the more lucrative options will require a considerable level of resourcing (staff time, expertise and financial resources). As has been discussed throughout this report, the ability of rural local governments to direct resources to such initiatives (which entail different levels of risk) varies. The findings of this report are useful in identifying potentially untapped opportunities for some councils, but ultimately suggests that intervention by higher levels of government is required to ensure the ongoing sustainability of organisations which are essential to the continued health and vitality of their communities.

Lastly, while identifying cost saving opportunities was not the focus of this project, both revenue raising and cost saving initiatives should be considered by councils to help achieve their financial objectives. This was a sentiment raised frequently throughout discussions with local government professions throughout the course of this study. As such, Section 5.5 briefly describes cost-saving opportunities.

5.2 Alternative income source options

First horizon: leveraging existing competencies and can be implemented relatively readily

1. Bulk buying and on-selling of services

Councils commonly negotiate bulk buying agreements for many goods and services for operational purposes, allowing for the purchase of services and equipment at below market rates. There is potential for rural local governments to increase the amount of goods and services they purchase through such agreements to on-sell to the residents and local businesses. A commission or service fee could be charged to generate income for council. Such bulk-buying arrangements could be leveraged to support local economic development aims through the procurement of goods and services from local businesses.

Examples of equipment and services that this arrangement could apply to includes fleet vehicles, internet data, phones and laptops.

The Municipal Association of Victoria (MAV) and Procurement Australia provide existing procurement facilities for local governments, which could potentially support such a scheme.

Case Study: Randwick City Council (NSW)

Randwick City Council partnered with The Good Car Company to offer residents the opportunity of a community electric vehicle bulk buying scheme. While it is not clear if council charged service fees or commission for the bulk buying agreement, residents were able to receive the bulk-buying cost savings. A community campaign was run generating interest at the Randwick Eco Living Festival, inviting expressions of interest.

2. Commercialise council's existing asset base

There is an opportunity to explore the untapped potential in existing asset bases to generate additional income.

Leveraging underutilised council office floorspace has emerged as an opportunity because of the continuing trend of working from home arising from the COVID-19 pandemic. While the long-term outlook of this trend is unclear, several councils have sought to take advantage of reduced demand for office space from staff to explore opportunities for commercialisation, such as leasing a portion of floor space for shared workspaces. There is potential to link such an initiative to broader municipal economic development goals by looking to provide incubator spaces for local businesses at subsidised rates.

Other examples of commercialisation of existing assets include charging fees for council-owned parks as wedding venues and utilising bus shelters, street banners and billboards for advertising space. Councils pursuing the commercialisation of assets should be aware to set fees and charges considering competitors.

Brimbank City Council (VIC)

Brimbank City Council have built updated office spaces which included a larger space than needed for Council staff and operations. The excess space is used as shared office space and open to be booked on an hourly and casual basis. There is also the opportunity for spaces to be leased on a more permanent basis with longer term leases available.

Case Study: Logan City Council (QLD)

Logan City Council is exploring a body of work in preparing a Commercial Activation Strategy and has recognised potential in commercialising councils existing asset base.

3. Open space contribution charges

Public open space contribution charges are an important tool designed to help councils provide new open space or improve existing open space in response to needs created by a growing or changing community. Open space contributions are collected under the *Subdivision Act 1988* at the time of subdivision as a percentage rate on the value of the undeveloped land. Contributions are typically

assessed by councils at up to five per cent and justified on an individual basis. These contributions may be challenged by developers at the Victorian Civil and Administrative Tribunal.

Councils have the option of locking in contribution rates at their current or higher levels by amending their planning schemes. This requires strategic justification and endorsement through an independent panel process but, if successful, can generate reliable and potentially higher revenue flows for Council's open space capital works, thereby freeing up rates and other revenue for other services. Contributions secured under the planning scheme as opposed to the Subdivision Act are not appealable.

4. Municipal-wide development contribution plans

In Victoria, Part 3B of the Act, amended by the *Planning and Environment (Development Contributions) Act 1995* and the *Planning and Environment (Development Contributions) Act 2004,* provides councils with powers to use Development Contributions Plans (DCPs) for administering developer contributions through the planning system. DCPs are a form of user-pays development contribution that are used to provide (via payments or works-in-kind) various items of shared infrastructure including roads, stormwater, community infrastructure, and so on.

Larger rural councils which are experiencing higher population growth and development, or smaller councils with concentrated areas of development could consider preparing a DCP. DCPs must be strategically justified and linked to the State Planning Policy Framework or the Local Planning Policy Framework in the planning scheme. Municipal-wide (rather than precinct-specific) DCPs can generate significant income and allow for the inclusion of all planned infrastructure projects, regardless of whether they are triggered by development.

Councils considering implementing DCPs should be aware that the plan must be prepared well in the first instance and council should be prepared to track against the plan. While DCPs can deliver significant financial benefits over their life span, they can take a long time to set up and can place a high administrative and cost burden on councils.

5. Benchmarking of user fees

Councils charge user fees for the recovery of service delivery costs. Councils' services that charge user fees include the use of leisure, entertainment and other community facilities and human services such as childcare. Several pricing structures can be applied:

- Market pricing – where prices are set based on benchmarked competitive prices of alternate suppliers. This represents full cost recovery plus an allowance for profit.
- Full cost recovery pricing – where prices are set to recover all direct and indirect costs incurred to deliver the service. This pricing is used where a service provided by a council benefits individual customers specifically, rather than the community as a whole.
- Subsidised pricing – where the full cost of providing the service is not passed onto the customer and is subsequently subsidised by other revenue streams. This can range from full subsidies (i.e. the Council provides the service free of charge) to partial subsidies, where a council provides the service to the user with a discount.

Councils should determine the extent of cost recovery for a particular service consistent with the level of both individual and collective benefit that the services provide and in line with the community's

expectations. Fees should then be benchmarked against other councils to identify additional revenue sources. Fees should be set at market or full cost recovery if possible.

6. Full cost recovery through service charges

A council may declare a service rate or an annual service charge for the provision of services, such as collection and disposal of refuse. As discussed in Section 2, the benefit of levying service charges is that they are not included in the rate cap and therefore can be set at full cost recovery.

While councils may recover the full cost of applicable services, the degree to which there is a clear understanding of these costs is variable, reflecting differences in resources and expertise across local government. The 2010 VAGO report 'Fees and charges – Cost recovery by local government' found that the councils examined were not effectively managing the full costs of the services they provide and not basing their fees and charges on any clear understanding of these costs, including indirect costs. This situation, coupled with weak costing and monitoring practices, means that most councils do not understand the true cost of their services and the extent to which they subsidise them.

There is an opportunity for councils to take a more strategic approach to cost recovery to ensure that they are including all costs (including overheads) to determine the full cost of services within service charges.

7. Updating data to maximize untied local roads grants

Local roads grants are a component of the Financial Assistance Grants designed to reflect the relative needs of Victorian councils in relation to local roads funding. Unlike many other grants, local roads grants are untied grants.

Included in determining funds councils receive for the local roads grants is the calculation of a network cost, which draws on estimations of each council's road length and traffic volumes. It was revealed through consultation that, often, council data on each of these indicators is poor or incomplete, resulting in under allocation of grant funds. Obtaining accurate road and traffic data is particularly important in rural areas, where networks are extensive.

It is recommended that councils ensure data on their local road assets are up to date and accurate so that grant allocations truly reflect the extent and cost of local road networks. The upfront costs and internal council resourcing of conducting an audit of local road assets may be a barrier. However, the *Rural Roads Common Dataset Framework* established through the State Government's Rural Roads Support Package sets out core data items to meet statutory, grant, emergency and basic asset management requirements.

Case Study: Oberon Council (NSW)

Oberon Council in NSW recently used roving cameras to grade all council owned roads for up to date data on their local road network. This has helped ensure council receives the maximum potential value for the local roads grant.

8. Upgrade existing Council owned campgrounds and caravan parks

Councils across Australia hold assets that are unique to them. Frequently these are legacy assets or reflect the local resource base (for instance, quarries). However, many rural councils own and operate caravan parks which are often able to generate reasonable amounts of revenue but that may be undervalued or underutilised.

There is potential to leverage these existing assets to facilitate growth in the visitor economy and increase council revenue. Opportunities arise from key trends in the camping and caravanning market:

- An emerging trend towards shorter holidays. This is expected to continue, with 4-7 days identified as the average standard family holiday.
- 'Grey nomads' becoming more active, mobile and tech-savvy, looking for value-based holiday experiences.
- People demand more from their holiday experience: quality customer service, high standards of accommodation, quality activities, quality food, and local experiences best fulfilling the destination promise.
- An increase in the number of people looking for 'back to basics' and 'nature-based' holiday experiences.

Councils should strategically re-evaluate the potential of their local, municipal-owned caravan parks to capitalise on these trends. This may include upgrading existing facilities, provisioning of new facilities, or creating niche camping experiences leveraging local character or features, for instance.

Councils may wish to operate and manage parks directly or may choose to lease to a private park operator. A leasing arrangement offers several benefits to councils, including:

- A lease protects councils from the risk of losing money in operating the caravan and camping park.
- It can also provide much-needed capital investment into park infrastructure, and promote professional management skills and experience, thereby improving amenities to park visitors.
- Ability to set minimum standards and procedures into leasing contracts to ensure high standards in facilities, infrastructure and services delivered.
- Removes the day-to-day burden of responsibility for managing the park, such as undertaking ongoing maintenance and repairs, while still providing an income stream in the form of rental payments.

However, unless the lease comprehensively addresses the council's long-term management and development objectives for the park, the leasing model can reduce control over the caravan park, and lead to poorer results for council, the tenant and park users. This can be overcome at the initial planning stage by developing a detailed park management plan and/or business plan

Case Study: Gannawarra Shire Council (VIC)

In 2020 Gannawarra Shire Council established 'Koondrook Retreat', capitalising on the rise in 'glamping' popularity with six safari style tents providing hotel style amenities. The retreat is aimed to establish the area as a nature-based tourism destination and is leased to a private operator.

Second horizon: look for ways to innovate, but within the scope of existing competencies

9. Sell established services to neighbouring local governments or state governments

Some councils have established services that operate highly efficiently. This can be because of the unique expertise of staff or a specific asset base within council.

There is an opportunity for councils to expand and sell specialist services to neighbouring councils or others. This creates the potential for both the council offering the service to generate income and those paying for services to relieve staffing and resourcing pressures.

Councils should look to identify where they may possess unique skills or assets that might be utilised by neighbouring local governments or other local organisations and businesses. These might include:

- Plant equipment and machinery.
- Internal technical expertise such as engineering, marketing and communications, mapping and data analysis, etc.

Plant equipment may be provided via leasing agreements, while technical expertise could be offered as a fee-for-service model.

Case Study: Gannawarra Shire Council (VIC)

Gannawarra Shire Council provides their street sweeping machinery and service to neighbouring councils, charging a small fee.

Case Study: Oberon Council (NSW)

Oberon Council in NSW has established a group of staff with engineering expertise allowing Council to pursue contracts for private works on roads. Council use both a team of internal staff and contractors, and have secured two permanent contracts for the NSW Government with a 10-15 per cent project management fee. Council is also able to apply for tenders and work externally with neighbouring local governments.

10. Generating income from waste

Waste collection continues to be a major ongoing cost for all councils. However, the industry is seeing constant improvements and innovations in waste, resource recovery and the circular economy. The waste industry is increasingly seen as one with great potential to generate both resources and income.

As demand for green waste grows for a variety of reprocessing purposes, councils could consider how to maximise the potential of their waste collection and disposal. This can be in the form of selling green waste to the private industry, charging surrounding councils for green waste disposal or ensuring competitive charges for waste contracts.

Notably, the potential of waste to energy plants is gaining attention for local and state governments and the private sector. Waste to energy involves turning waste material into heat or electricity as a final opportunity from material that would otherwise go to landfill. In 2021, the Victorian State Government released *The Victorian Waste To Energy Framework.* The framework sets out to change the way waste to energy in Victoria is managed and recognises that appropriate investment in waste to energy will support jobs, growth and economic development. From late 2022 businesses wishing to operate a waste to energy facility will need to apply for a licence via a new government business unit. Victoria's

landfill levy is expected to double between 2020-2023, enhancing incentives for diverting waste from landfill and into waste to energy projects.

Case Study: City of Adelaide (SA)

The City of Adelaide charges several surrounding local governments for green waste dumping at their waste collection facility and on-sells the product to private industry.

Case Study: London Borough of Harrow (UK)

The Borough of Harrow in London used an 'ebay-style' system to host an online auction for the sale of its recyclables. One hundred per cent of its dry recyclables were sold to Viridor, a waste management firm for which it received £36 a ton for material, plus a share in any profits above a baseline sell-on price of £78 a ton (generating £900,000 from 19,000 tons in total).

11. Upgrading to fibre optic cable when completing pipeline renewal projects

Many councils around Australia have been upgrading their telecommunications services to include a fibre optic cable network. While the network provides the necessary infrastructure for many local government purposes (such as closed-circuit TV networks and public WI-FI) there is also potential for councils to generate income through broader commercial use.

Several councils have established fibre optic networks to a scale that allows for the lease of these assets to telecommunications carriers.

Costs in establishing these networks can be reduced by laying cables when completing storm water infrastructure works. Limitations councils may face in pursuing this opportunity include the presence of existing fibre optic services within an LGA, upfront costs, and internal resourcing to initiate projects and provide ongoing management.

Case Study: Coffs Harbour City Council

Coffs Harbour City Council's Technology Group has developed a network of fibre optic cable while simultaneously completing replacing and upgrading the sewer network. Council has taken advantage of this expertise by on selling these skills to other local government areas for the installation of optic fibre and extended the work to the supply and installation of closed circuit TV infrastructure. There are several councils now that have similar fibre optic networks that on-sell the network to telecommunication companies.

12. Subdivision of council owned land

Local governments often have significant strategic land holdings that may be suitable for subdivision and development. There is potential for councils to capitalise on the value of this land by shepherding it through the subdivision process, before on-selling the newly created titles to the private market for development. There are several case studies where this is occurring across Victoria and Australia.

Given that most councils have many of the necessary skills for subdivision in-house, this process is likely to help bring land to market efficiently. Previous research by SGS exploring barriers to housing supply in rural areas found land withholding to be a significant issue, limiting housing growth and constraining local economies. Subdivision of land by councils has the added benefit of making land available for development, helping in part to address these issues.

However, many councils will be unable to carry out these actions due to either lack of existing land holdings or a lack of strategic land holdings for a development purpose.

Case Study: Gannawarra Shire Council (VIC), Golden Plains Shire Council (VIC) and Pyrenees Shire Council (VIC)

Gannawarra Shire Council, Golden Plains Shire Council and Pyrenees Shire Council are each undertaking their own projects for subdividing council-owned land.

Case Study: Logan City Council (QLD)

Logan City Council has established a for-profit, beneficial enterprise titled Invest Logan. The council-owned entity was set up as a development company to take surplus public land to create value though the creation of jobs and profit. Invest Logan has been used as a catalyst to stimulate growth. Profit generation from this venture will likely take some years.

13. Rezoning of council owned land

Local governments regularly rezone land to enable higher value uses via a planning scheme amendment process. This practice, known as up-zoning, can create commercial opportunities for urban renewal and property development, with the value of increased development rights capitalized into the price of the land.

For example, other things equal, land which is regulated for urban commercial or industrial uses will be more valuable than land otherwise equivalent to land designated for low intensity agricultural uses. And likewise, land zoned for mixed use residential will be more valuable than land designated for industrial uses, and so on.

Aside from where the recently implemented Windfall Gain Tax applies, the increase in land value created through the up-zoning process is typically captured by private landholders. Like the subdivision opportunity discussed above, there is potential for councils to generate income by shepherding

strategically located, council-owned land through the rezoning process before selling to the private market to capture the additional value created.

Local governments across Victoria and Australia are already beginning to play a more proactive role in these processes, with several examples of councils undertaking rezoning of publicly owned land to establish business parks and attract new businesses into their local areas.

However, councils must be cautious in ensuring that any rezoning is undertaken strictly in accordance with the overarching strategic land use objectives of the municipality to ensure that there is no perception of land being arbitrarily rezoned for financial gains by local communities.

Case Study: Gloucester Council (NSW)

Gloucester Council in NSW acquired land on fringe of the urban area prior to rezoning. Council has since undertaken its own subdivision of the land for residential development.

Case Study: Central Goldfields (VIC)

Central Goldfields Shire have previously rezoned council owned land to establish business parks. This is a successful example where Central Goldfields Shire were able to attract businesses into the area.

14. Rationalisation of council asset base

Councils should identify assets surplus to their needs and/or consolidate these through combined service provision to release funds for capital purposes. Consolidating council assets and services helps to create cost savings, release funds, and when done efficiently, creates the opportunity for councils to do more services with less resources.

Decisions around consolidation and selling of surplus assets need to reflect both the shorter term and strategic views of the desired outcomes of council and the community. To support this councils should maintain data on assets that contain both maintenance and failure information to better inform decisions around consolidation.

15. Special rates to fund small scale infrastructure projects

Councils may seek to raise additional funds for small scale infrastructure for groups of ratepayers who receive a special benefit. A council may declare a special rate or charge to defray any expenses or repay (with interest) any advance, debt or loan raised by the Council in relation to the performance of a function or the exercise of a power of the Council, if it will be of special benefit to the persons required to pay the special rate or special charge.

Examples of projects that can be funded through special rates that benefit certain groups of ratepayers include footpaths and private streets or roads.

Third horizon: aspirational ideas

16. Repealing statutory exemptions from rating for specific land uses

The exemption for mining was inserted into the first (Victorian) *Local Government Act* in 1878 and has remained unchanged since. The public benefit of mines does not stretch broadly into the community, meaning the exemption for mines is not consistent with the principles of fairness.

The Local Government Rating System Review suggests that the land use should be linked to the concept of public benefit to determine exemptions. Consistent with the recommendations of the Local Government Rating System Review, the ownership-based and lessee-based criteria for rating exemptions of mining should be repealed. Victorian legislation should be brought into line with other Australian states such as the ACT, Queensland, Northern Territory, Western Australia, South Australia and Tasmania where rating of mining industries is not exempt. This would require changes to the *Local Government Act 2020*.

Another exemption for rating includes residences of ministers of religion and places for their education and training. The Rating System Review also suggests that this land use would not meet the principle of public benefit due to its private or exclusive use. It has been suggested that the Catholic Church in Victoria, for example, is worth more than $9 billion with 1,800 church-owned properties.[6] Where religious organisations hold property that is not considered to be for the public benefit legislative changes should be considered to remove this land use from the current exemptions in the *Local Government Act 2020.*

Case Study: Western Australia, *Local Government Act 1995*

As with many other states in Australia, mining is not listed as exempt rateable land in Western Australia under Section 6.26 of the *Local Government Act 1995.* In Western Australia land is valued by the Valuer General's Office and values are forwarded to each local government. Two types of values are calculated by the Valuer Generals Office: Gross Rental Value and Unimproved Value. These values are used by councils to determine rates by multiplying a rate on the dollar by the supplied value. In Western Australia, rates are also imposed on mining exploration licenses.

17. Payment in lieu of rates (PiLoR) reform

The *Electricity Industry Act 2000* allows electricity generators to negotiate payments made to local councils. Payments are made annually to councils and are established on a combination of fixed charge and a variable charge based on the capacity of the power station in megawatts. The fixed charge in FY2021-22 is $56,790 and the variable charge is $1,279 per megawatt (MW) for commercial electricity generators. Solar and wind commercial electricity generators with a nameplate capacity of up to 25MW are charged $1.17 per megawatt hour generated, with a minimum amount payable of $7,500.

---

[6] ABC News, *Catholic Church national wealth estimated to be $30 billion, investigation finds*, *2003.*

These amounts are significantly less than what would be charged if electricity generators were subject to council rates. If electricity generators remain exempt from rating, the PiLoR provision of the *Electricity Industry Act 2000* which determines fixed and variable charges should be increased substantially. This option would require legislative change within the *Electricity Act 2020.*

Case Study: Municipal Association of Victoria, Submission to Rating Review System

In 2019 MAV made a submission to the Rating System Review in Victoria and included several examples of the disparity between PiLoR charges compared to a rates-based charges for the financial year of 2018/19, highlighting the shortcomings of the current PiLoR system. The following examples were provided by MAV:

- Swan Hill Rural City Council contains three solar farms which generates an estimated PiLoR of $284,280 compared to a potential rates-based charge of around $1,743,768.
- Moira Shire Council contains Numurkah Solar Farm which generated an estimated PiLoR and other charges of $339,818 compared to a potential rates-based charge of around $587,405.

18. Parking fines reform

Parking fines generate significant revenue for metropolitan councils and many regional city councils. The fine amounts range from $92 to $185 in the 2022-23 financial year depending on the offence and the values are set by the State Government, increasing annually.

The disparity between the amounts of revenue collected between metropolitan and rural councils is significant and this outcome is not due to strategic policy decisions from council on either end of the spectrum. Instead, metropolitan councils benefit unfairly from being at the centre of a state-wide economy.

Rather than continuing to have some councils benefit disproportionately from revenue collected from parking fines, a distribution of parking revenue funds should be considered between all councils on the basis that Victoria operates as an integrated economy. On this logic, parking fine revenue would be aggregated and distributed to all local governments on a per capita basis. This would ensure a fairer distribution of funds between councils.

There may be significant opposition from metro councils who currently benefit from significant parking fine revenue and the current legislative framework would need to be changed.

19. Underutilised land for solar or wind projects

Larger investment opportunities in the renewable energy sector have the potential to both reduce energy costs to councils but also generate income through the sale of energy surplus to council requirements.

Councils with suitable existing land holdings should explore the potential to develop renewable energy projects in the form of wind or solar farms. For example, other local governments have pursued solar farms on former land-fill sites.

The choice of governance model from a council perspective runs across the following spectrum:

- Traditional municipal operations would see the solar farm operated by council using entirely in house resources which are deployed at the direct discretion of elected members and management.
- Commercialised management which typically involves delegating operation and ongoing development of the asset to a Council appointed committee.
- Corporatised models involving setting up the asset as a separate legal entity with its own Board and powers to appoint management and staff.

Obvious barriers to councils for these projects include:

- The significant upfront costs of undertaking such a project.
- Requirement for suitable, available council-owned land.
- Ongoing costs and internal resourcing requirements (depending on the government model adopted)

An option that may alleviate some of these barriers would be for councils to undertake a project in a joint venture with a group of councils.

Councils will also often have underutilised real estate, whether it be vacant land, parking lots or council buildings. These sites may be of great potential for councils to install solar panels to generate power for council buildings and services and sell excess power back into the grid. When solar panels are installed across council assets at larger scales, greater opportunity exists for council to generate profit from the energy it generates.

Case Study: City of Lancaster, California (USA)

The City of Lancaster installed solar panels on underutilised council assets such as council buildings, vacant lots and parking lots. Through this initiative, Lancaster was able to generate revenue for the council rather than incur typical expenses for energy, while selling excess energy back into the grid. Council then scaled up the solar project by partnering with local schools, generating enough energy to fulfill the requirements of the city's education facilities, but also to sell power to members of their community.

Case Study: Summerhill Solar Farm, City of Newcastle (NSW)

The City of Newcastle in NSW constructed a solar farm on the former Summerhill Waste Management Centre. In the first six months of operation the 5MW solar farm generated almost double the amount of revenue it was expected to make annually. Original forecasts projected an average of $250,000 a year while in reality it generated more than $420,000 in less than six months.

Case Study: Knox City Council Solar Farm Project (VIC)

Knox City Council has undertaken feasibility works to explore the prospect of developing a solar farm on a council-owned former landfill site. The preliminary findings of a feasibility study showed that the former landfill site was suitable for a 4.99MW solar farm and if constructed, the solar farm would generate energy equivalent to 2.4 times Council's energy demand. Further investigation is being undertaken into enterprise models for the funding, construction, and operation of the solar farm.

20. Tourism and accommodation charges

Tourism taxes or visitor levies have been introduced and operating in international contexts for decades. While the idea is not new, these policies are often controversial and have been debated in Australia for some years.

As Airbnb and other similar services continue to boom, local governments across Victoria and Australia face the adverse pressures that private holiday listings add to local housing markets and infrastructure networks, with many seeking measures to mitigate these impacts.

While there is a need for support at the state government level via legislative change, a proposed model of the visitor levy could be imposed through local governments. There are three relevant taxes or levies charged through the tourism and accommodation industries that should be considered:

- In a model proposed by the Tourism Industry Reference Panel in Queensland, a visitor levy is paid by visitors to accommodation providers who then pay the levy to their local council.
- An industry levy, which is paid by businesses operating in the visitor economy and is usually collected at the regional or local government level.

- An Airbnb tax, where short term accommodation hosts pay a tax for stays under 30 nights to their local governments through an agreement with Airbnb.

Case Study: Tourism Industry Reference Panel (QLD)

A recent report from the Tourism Industry Reference Panel in Queensland has recommended the state impose a new visitor levy to secure funding for the future. The panel believes that the mechanism needs to be flexible with the ability to be varied at the local government level to suit local circumstances. The report says a state-wide levy would not work and local governments should be able to choose whether or not to adopt the levy.

Case Study: Ontario, Canada

Canada has implemented a Transient Accommodation Tax which allows for a municipal accommodation tax. This tax applies to visitors of the region and allows cities to be compensated. Canada has entered into an Airbnb tax agreement since 2018 where every listing pays a hotel tax or municipal accommodation tax. It is estimated that an additional tax revenue of $850,000 could be collected from 2,700 Airbnb hosts in Ottawa in 2018.

21. Reform of minimum grants requirements

There is an opportunity to have the Commonwealth Government amend legislation to remove the minimum grant requirements and have these funds redirected to rural councils.

As it currently operates the minimum general-purpose grant for a council is to be not less than the amount to which it would be entitled if 30 per cent of the total amount of general purpose grants were allocated on a per capita basis. This ensures that all local governments receive an allocation even if the relevant Grants Commission formula would result in a zero allocation.

The minimum grant guarantee is seen to unfairly advantage inner and middle ring metropolitan local governments. For instance, the available general purpose grants pool for Victorian councils in the 2021-22 year represented, on average, $70.39 per head of population (using ABS population estimates as of 30 June 2020). The minimum grant national distribution principle requires that no council may receive a general-purpose grant that is less than 30 per cent of the per capita average or $21.43 for 2021-22.

Without the application of this principle, general purpose grants for 2021-22 for 16 councils – Banyule, Bayside, Boroondara, Darebin, Glen Eira, Hobsons Bay, Kingston, Manningham, Melbourne, Monash, Moreland, Moonee Valley, Port Phillip, Stonnington, Whitehorse and Yarra, would have been below the

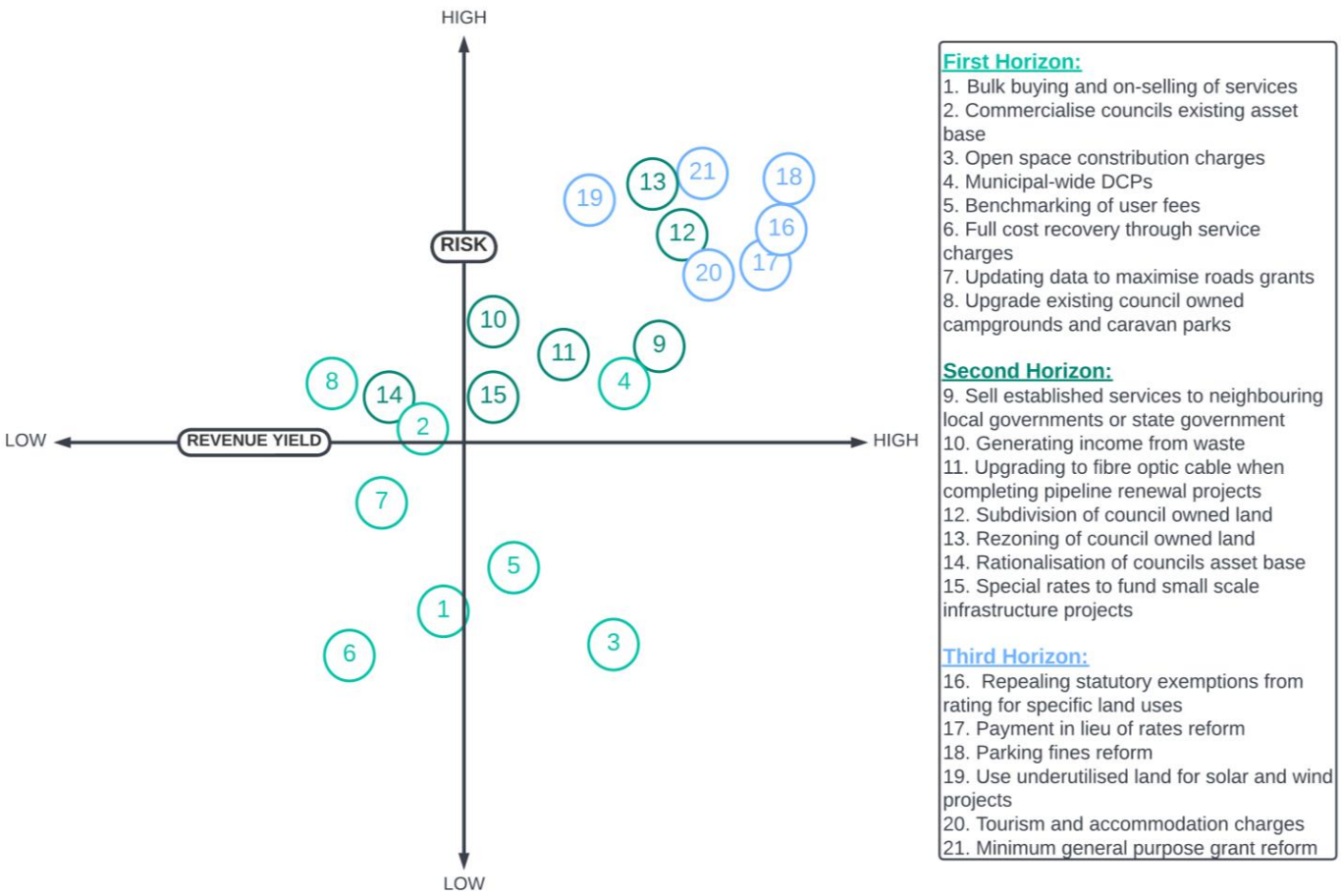
$21.43 per capita level. The minimum grant principle has resulted in the general-purpose grants to these councils being increased to that level. The total of these minimum grant allocations for the 2021-22 year was $50.1 million

The minimum general purpose grants requirements should be removed with funding allocated more fairly to rural local governments.

5.3 Risk-return assessment

The resources required, and risks confronted, for these options vary greatly, as does the amount of potential income they can generate for each council. A risk return appraisal summary is included below in Figure 12**.** Note that this is a qualitative assessment informed by our research. Nevertheless, it seems clear that options that carry low risks and implementation costs together with high potential revenue yield (the bottom right quadrant) are comparatively few.

FIGURE 12: RISK VS RETURN APPRAISAL OF OPTIONS



Source: SGS Economics and Planning, 2022

5.4 Agenda for further action

The above actions should be pursued through implementation of the following priority actions:

1. RCV should utilize the findings of this report to advocate to state and federal government for reform of local government funding arrangements. This report highlights that while some opportunities for raising additional revenue exist, these are relatively limited, require levels of resourcing beyond the capacity of many rural local governments, and will not resolve broader structural funding challenges. This includes revision of the minimum general purpose grant allocation.
2. RCV should prepare a broader advocacy agenda targeting:
   - Repeal of statutory exemptions from rating for specific purposes.
   - Reform of the payment in lieu of rates scheme.
   - Introduction of statutory mechanisms to allow for the collection of tourism and accommodation charges.
3. RCV should support members to jointly commission:
   - Review of council assets and services to identify opportunities for rationalisation and/or commercialization.
   - Review of service charges and user fees to enable full-cost recovery.
   - Preparation of municipal-wide DCPs and open space plans to implement development contributions levies and increase open space charges.
   - Collection of data on local road networks to support fair allocation of Local Roads Grants.
4. RCV should develop guidelines and assistance for members to use the bulk buying facility of MAV to generate additional revenue through on selling of goods and services to other members of the community.
5. RCV should set up an information exchange to share information across member councils in a structured way. This should include a website with resource materials of experience and knowledge of local government business projects. Other structured information sharing activities could include a standing agenda item for RCV committee meetings, and potentially staff secondments and skills sharing to accelerate the take up of best practice.

5.5 Cost-saving measures

The focus of this report is on alternative income sources for rural councils. However, through both consultations undertaken for this research and through the review of key documents in this area, a recurring recommendation for councils emerges around cost savings to help achieve financial sustainability. Revenue raising is only one part of councils securing financial security and should not be considered independently of cost savings. While it is recognized that councils already operate efficiently, there are additional cost saving measures that could be considered.

A major finding from consultation undertaken with councils from around Australia as part of this research was a continued interest in shared services as a cost saving mechanism. The review of relevant past research shows that shared services continue to be an underutilised opportunity recognised within the local government sector. Shared services present many opportunities as a cost saving mechanism for councils, however, the implementation processes and ongoing arrangements of these initiatives remain unclear for many councils.

The common barriers that implementing shared services has faced include the threat of job losses within councils, parochialism, the loss of autonomy or local control, staff resourcing to establish initiatives and a lack of clarity around benefits. Another common barrier identified by councils is the variance in IT systems used by councils and the issues this posed for collaborations between councils. Standardised systems would allow resource sharing to occur more easily. Recent government funding for IT system upgrades has been used by some councils to help address this issue.

Pilot projects were established by State Government to progress shared services amongst councils but these met with limited success. Indeed, many in the sector regard these programs to have been a failure. Criticism of the program centred around overcomplication in the application process and persisting with shared service projects with little interest from councils. Suggestions to improve pilot projects include allowing councils to put forward and pursue projects according to their greatest needs. This will allow groups of councils to come together to establish beneficial enterprises to deliver shared (both back-office and client-facing) services at lower costs by tapping economies of scale.

Appendix A: Grants

TABLE 8: FEDERAL AND STATE GOVERNMENT GRANTS

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
Federal Government grants	Local Roads and Community Infrastructure	$500 million has been committed to fund local road and community infrastructure projects that must deliver benefits to the community. Councils can select projects to be funded in their community according to local level priorities.
	Community Development Grants Program	Supports the delivery of infrastructure that promotes stable, secure and viable local and regional economies. Intended to fund the construction or upgrade of community facilities, create jobs in delivery of projects and use of infrastructure and improve social amenity. Only projects scheduled for completion with a final payment made before 30 June 2026 and identified by the Australian Government will be considered for funding.
	Building Better Regions Fund	Focuses on tourism-related infrastructure ($100 million) and general infrastructure and community projects in regional remote Australia ($100 million). This grant is intended to provide between $20,000 to $10 million to cover 50% or more of eligible project costs. The Australian Government announced $250 million in the 2021-22 Budget towards a sixth round of the BBRF.
State Government grants	Victorian Local Government Grants Commission	Allocates financial assistance grants to support councils delivering community services, consisting of General Purpose Grants and Local Roads Grants. For example, under the General Purpose Grants, local councils are eligible for Natural Disaster Assistance grants of up to $35,000. Grants are allocated by the Commission based on an assessment of councils' needs.

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
	Roadside Weeds and Pests Program	Provides up to $75,000 a year for councils to manage invasive plants and pests along rural roadsides.
	Community Infrastructure Loans Scheme	The Scheme supports the delivery of community infrastructure by providing councils with access to low-interest subsidised loans of between $500,000 and $10 million per project. Projects that could be supported by the Community Infrastructure Loans Scheme include but are not limited to community centres and hubs; multi-purpose community facilities; arts and cultural facilities; public libraries; kindergartens and early learning facilities; restoration of heritage buildings to enable community use; and parks, play spaces, reserves and trails.
	Living Libraries Infrastructure Program (LLIP)	The LLIP enables Victorian councils and regional library corporations to deliver new or renewed library infrastructure that meets the needs of communities and, in doing so, supports the role of libraries in strengthening communities and encouraging opportunities for community participation. Funding is available through two categories: minor works and major works.
	Transport Accident Commission (TAC) Road Safety Grants	The TAC offers two grant programs for Victorian councils to improve road safety and engage with the Victorian Road Safety Strategy 2021-2030: the TAC Community Road Safety Grant and the TAC Local Government Grant Program. Local Governments can apply for a grant towards road safety analysis (up to $30,000) and infrastructure projects (up to $100,000) to reduce road accidents. However, for infrastructure projects, the applicant must match TAC funding on a 1:1 basis.
	Growing Suburbs Fund	The Growing Suburbs Fund is a $425 million investment over 8 years in local infrastructure in Melbourne's suburbs. The fund is limited to applicants from 10 interface councils and 6 peri-urban councils. Grants are awarded to high priority community infrastructure projects across the following categories: community health and well-being, early education, libraries, learning and training, sport, recreation and leisure facilities, climate change resilience, placemaking, civic amenity, and purpose-built facilities that respond to the needs of Aboriginal and Torres Strait Islander communities.

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
		The grant amount is unspecified, but Councils are expected to contribute funding to the delivery of each project on a 1:1 basis.
	Living Heritage Grant Program	The Living Heritage Grants Program supports conservation works for heritage places that as included in the Victorian Heritage Register and accessible to the public. Local Councils can apply for a grant between $20,000 and $200,000. The grant covers repairs, works that mitigate a significant risk to the place or allow the reuse of a building that is currently unused due to poor condition but does not include maintenance works.
	The Changing Places funding	Victorian Local Government Authorities are eligible to apply for Changing Places funding of up to $180,000 to construct an adult change facility and a public toilet in accordance with the Changing Places Design Specifications.
	VicHealth Local Government Partnership	The VicHealth Local Government Partnership offers dedicated funding opportunities to participating councils to support healthy local communities with a focus on children and young people. VicHealth also offers councils Alcohol Harm Prevention Grants of up to $40,000 to take action on alcohol harm prevention in line with the VicHealth and Alcohol and Drug Foundation guide.
	Building Safer Communities Program	Under the Building Safer Communities Program Victorian councils can apply for funding under two grant schemes: 1) Creating Safer Places – up to $300,000 to undertake urban design projects apply an inclusive environmental design approach to deter crime, increase safety and activate public places. 2) Crime Prevention Innovation Fund – up to $300,000 to deliver and evaluate innovative community safety and crime prevention initiatives.
	Coastal Public Access and Risk Grants Program	Grants of up to $150,000 are available for council's implementing projects that reduce coastal risk through identification, mitigation and monitoring.

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
	Rural Councils Transformation Program	Funded in the 2018-19 State Budget, the Program is designed to help rural councils meet their financial and operational challenges by incentivising the implementation of regional service delivery and shared services. Two rounds of funding have been awarded with the focus of Round One ($18.5 million) on large-scale projects and Round Two ($$6.93 million) on smaller-scale projects with new and ongoing collaboration and resource-sharing arrangements. Another round of funding has not yet been announced.
	Free from Violence Local Government Program	The Program supports councils to embed gender equality and family violence prevention practices into their work and the programs and services they deliver. Funding of up to $270,000 has been provided to 15 councils. The Program is not currently open to new applicants.
	Collaborative Council – Sustainability Fund Partnership Program	The Program supports councils to collaborate on projects focused on environmental sustainability and improved services. Through grants, councils can collectively find new ways to: – Improve procurement or shared service delivery; – Invest in more socially, economically and environmentally and financially sustainable technologies; – Reduce waste; and – Support innovation in recycling. Joint proposals from councils can receive a grant of up to $75,000. A total of nine rounds of funding have been awarded to date.
	Victorian Circular Economy Recycling Modernisation Fund	Grants between $50,000 and $500,000 are available to local governments that have existing reprocessing and/or remanufacturing facilities in Victoria. The grant funds projects that increase processing capability and capacity to improve the quality of materials for re-manufacture and/or use of select materials subject to the national waste export ban. Local government must co-contribute at least $2 for every $1 funded. This grant is co-funded through the Victorian government's circular economy policy, Recycling Victoria: a new economy and the Australian Government's Recycling Modernisation Fund.

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
	Local Living Fund	Councils can apply for grants of up to $200,000 for infrastructure projects, while smaller investments of up to $20,000 are available for minor upgrades and maintenance to facilities. Council infrastructure projects may include outdoor dining furniture and greening initiatives, splash parks and parklets, public art installations and safety and accessibility improvements. The government is giving priority to projects in areas most impacted by COVID-19 and those that support the government's 20-minute neighbourhood principles. The grants are delivered through two funds: Our Suburbs, for metropolitan councils, and Our Regions, for councils in rural and regional Victoria.
	Regional Jobs and Infrastructure Fund	The Regional Jobs and Infrastructure Fund includes three programs: 1) Regional Infrastructure Fund – offers grants between $20,000 and $3 million but the project must receive co-contribution funding from another source. Funding ratios depend on the size of the council. The fund is eligible for transformative infrastructure projects. 2) Regional Jobs Fund – mostly applicable to businesses, not local government. 3) Investment Fast-Track Fund – up to $500,000 per project capped at a ratio of $4 to $1 of program funding against the cash contribution from the applicant. It funds planning and development activity that fast tracks projects of strategic importance for rural and regional areas (such as planning processes and approvals, business cases and feasibility studies).
	The Regional Tourism Investment Fund	The fund provides grants between $150,000 and $10 million per project focusing on four growth sectors: nature, epicurean, arts and culture, and First Peoples' led experiences. Co-contributions are required on a basis of $1 for every $2 or $1 for every $3, dependent on the local government authority. The program funds new tourism infrastructure and/or significant enhancements to existing infrastructure or enabling infrastructure that directly and demonstrably unlocks private tourism investment.
	Enabling Tourism Fund	The fund support regional and rural Victorian tourism projects to reach investment-ready status by funding activities such as feasibility studies, master planning and business case development. Grants between $20,000

INFRASTRUCTURE FUNDING PATHWAY	GRANT NAME	DESCRIPTION
		and $500,000 are available. The fund focuses on four growth sectors: nature, epicurean, arts and culture, and First Peoples' led experiences. Co-contributions are required on a basis of up to $4 for every $1 funded by the applicant.

Source: Various, adapted by SGS, 2022.

CANBERRA / NGAMBRI / NGUNNAWAL

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART/ NIPALUNA

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE / NAARM

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY / WARRANG

Suite 2.01/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

SGS Economics & Planning

Certified B Corporation