

Parliament of Victoria

Legislative Council Economy and Infrastructure Committee

Inquiry into Local Government funding and services

Submission by Rural Councils Victoria, 27 June 2024

About Rural Councils Victoria

Rural Councils Victoria (RCV) is an incorporated body representing 34 small rural councils across country Victoria.

Our membership does not include regional councils, so our focus is on issues relevant to smaller rural areas, many of which are isolated or sparsely populated.

Our members' experiences will also reflect those of many smaller rural and remote areas of Australia. One in nine Victorians live in rural communities and are served by a rural council.

In Victoria, 38 of the 79 councils are classified as 'rural', including a number on the urban fringe.

Victoria's rural councils are responsible for 79% of Victoria's land area and have a combined population of approximately 836,000 (ABS 2020) accounting for 12.5% of Victoria's population and 62% 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.

Despite these challenges rural Victoria is a significant contributor to the national economy. Recent statistics shared by Agriculture Victoria highlight this:

- Victoria's gross value of agriculture production (GVAP) reached a new record high of \$20.2 billion in 2021–22.
- In 2021–22, Victoria accounted for 23 per cent of Australia's GVAP, making Victoria Australia's second largest agricultural producer after New South Wales (26%)

Overview

The financial sustainability of local government is a pressing issue for our membership.

Over many years, local governments across the country have been facing a situation where their capacity to raise revenue is not matching the expectations and needs of their communities.

Recently this has intensified with many rural councils facing multiple pressures.

These pressures include: changing populations with increased service needs; ageing facilities that require updating; the pressure of natural disasters and inflationary pressures rapidly pushing up construction and maintenance costs.

This situation needs to be addressed and we welcome this inquiry to explore what can be done to support local councils to continue to deliver for their communities.

RCV member councils have shared their insights to assist with the preparation of this submission and we welcome the opportunity to appear before the inquiry to share our members' perspectives and the stories of our communities.

Rural Victoria is an amazing place to live, work and visit and we need to ensure that councils have the resources to keep communities, of all sizes, vibrant and thriving.

RCV Research

Research commissioned by Rural Councils clearly demonstrates the difficult financial position many RCV member councils are in and the extremely limited options available.

RCV commissioned a national and international review of potential alternative income streams for financially strapped rural communities.

The report – [Alternative Sources of Income for Local Government \(ASILG\)](#) (PDF download) – **found no single idea or even group of ideas from a search across Australia and overseas can generate significant alternative revenue for small councils representing small communities.**

The research found that there is simply no “silver bullet” that can boost council incomes.

The report – by SGS Economics and Planning on behalf of Rural Councils Victoria – examined options across Australia and similar jurisdictions, including the UK, Canada and New Zealand.

Internationally only two councils, one in Canada (City of Saint John) and one in New Zealand (Hauraki District Council) managed to raise more than 5 per cent of income from “other” (non-rates, non-fines, non-government) sources.

RCV Chair Mary-Ann Brown told media at the launch of the report: **“The truth, globally, is that to ensure equitable access to the services small communities need and deserve, state and federal governments need to step up.”**

With limited capacity to raise additional revenue, Councils have little to no way of combating rising costs and increased community expectations.

The report also found that local governments are, on the whole, efficient organisations that generate great value for their communities and manage to continue to deliver high-quality support to their communities despite financial pressure.

There were opportunities identified by the report to further streamline and optimise the operations of local government. However, these would not address the underlying financial sustainability problems.

Other supporting research

The Grattan Institute Report – *Potholes and pitfalls: How to fix local roads*, also looked closely at the issue of council financial stability and the ability to maintain local roads. That work found that

there is not enough funding in the system from the State or Federal Governments and that councils are delaying maintaining roads and underspending on maintenance. It also found that funding is not getting to where it is needed. Small councils with limited populations are missing out in favour of larger more populous councils.

Tied funding or grant funding is a drain on resources for councils and many grant programs have rules or guidelines that are inflexible.

The Grattan Institute found that funding levels from the government have not kept pace with actual local government costs. Inflation has risen steeply in recent years so councils have been shouldering the burden of meeting increased costs with little to no boost from other funding streams.

Survey of rural councils

Rural Councils Victoria undertook a survey of member councils in April 2024. The survey supplements previous research work and aids understanding of the current situation.

More than half of RCV member councils responded to the survey.

The councils that completed the survey are collectively responsible for 43,000 kilometres of roads, more than 200 bridges, nearly 300,000 residents, more than 71,000 square kilometres and provide more than 1000 services to their communities.

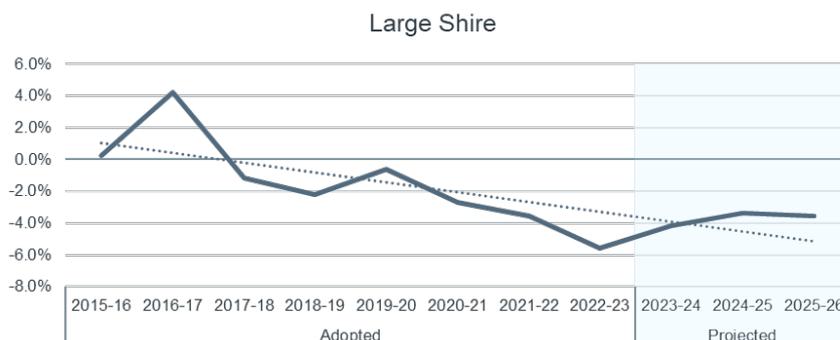
These local governments are an important part of the fabric of Australia and keep communities thriving across rural Victoria.

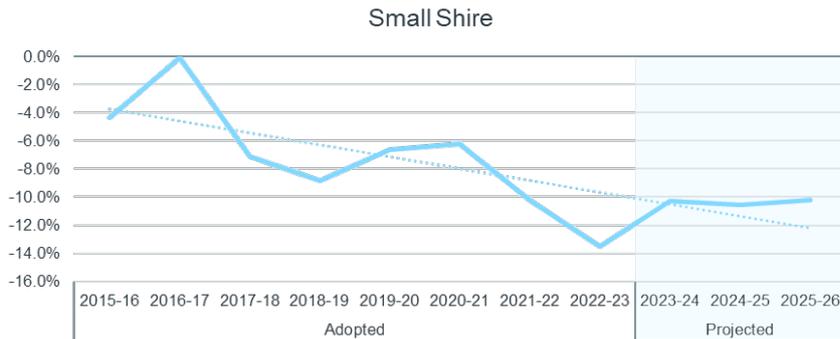
Responding to the Terms of Reference

(1) the effects of cost shifting from the state and federal governments to local councils in an examination of vertical and horizontal fiscal imbalances;

Over half the councils surveyed in 2024 indicated that their financial position was average, while a further quarter said that their situation was poor. None of the councils surveyed indicated that they were in an excellent financial sustainability position.

It is important to note that over the long term, councils cannot be expected to continue with adjusted underlying deficits without a deterioration in cash and/or infrastructure. Recent analysis by FinPro (a not-for-profit supporting finance professionals in Local Government in Victoria), using data provided by Local Government Victoria, indicated a downward trend in the Adjusted Underlying Result Ratios.





In our survey when asked to reflect on their top 5 funding challenges, the most common top-ranking issue was the current **rate-capping** policy of the state government. The second most common top funding challenge was ‘*increased expenditure demands for infrastructure*’ and ‘*limited revenue sources*’.

Across all ranking levels, the issue that was selected the most was ‘*increased expenditure demands for infrastructure*’, followed by ‘*limited revenue sources*’.

This demonstrates that councils are being squeezed from both directions, with increased demand for infrastructure spending, amplified by the rising cost of roads, materials and maintenance coupled with limited avenues to raise any additional revenue.

The ASILG report supports this with research that found there were some small-scale or boutique revenue sources that councils could pursue, but they were unlikely to generate enough income to address the increasing financial demands being placed on councils.

Without intervention, this problem will only get worse. If councils are not able to raise more money, they will not be able to meet the infrastructure and service delivery needs of their communities.

The largest source of operating grants for councils is from the Commonwealth Government through the Financial Assistance Grants program under *the Local Government (Financial Assistance) Act 1995*. Disappointingly, as a percentage of total Commonwealth Government taxation revenue (excluding GST), the amount of Financial Assistance Grants made available to local government across Australia has decreased from 0.76% to 0.57% from 2011/12 to 2021/22.

While the Commonwealth Government and the Victorian Government can earn uncapped taxation revenue that increases with economic and population growth, enabling increased living standards, the local government sector is reliant upon insufficient rate revenue to meet cost escalation alone and Financial Assistance Grants that have not increased in real terms on a per capita basis since 1995.

Rate Capping

With communities and families across the country facing their own cost of living pressures, the option to raise revenue directly from communities is not a feasible one. Many in rural communities do not have the capacity to pay more, nor does the current rate capping position of the state government allow for it.

While applying for a rate cap variation is an option for councils, it is not an option they want to pursue. Very few councils have ever attempted a rate-cap variation as the process is challenging and not guaranteed to generate additional ongoing income.

There are cost increases that occur sector-wide and to expect individual councils to undergo a resources-intensive process to apply to raise their rates to meet these costs is unfeasible.

For example, the upcoming Local Government Elections are paid for by individual councils, the cost for some councils for the Victorian Electoral Commission to conduct these elections has nearly tripled. However, there are no mechanisms for councils to raise this additional revenue to pay for the elections.

Individual councils should not be expected to attempt a rate cap variation to meet increasing external costs, this is a structural problem that requires government intervention and a sector-wide solution for responding to rising costs such as the elections.

(2) whether local councils are adequately delivering on their core service delivery objectives;

If further revenue cannot be raised by councils they must look for other ways to balance their budgets. One way councils seek to do this is to review the services they offer and the infrastructure they build and maintain.

The councils surveyed believed that their role in the community was wide ranging with roads maintenance, community infrastructure, parks and nature, planning and approvals, sport and recreation facilities all being chosen by the majority of respondents as core services local government should provide.

Not a single respondent believed that childcare was a core service for councils to provide and very few saw kinder and aged care services as core services that local government should provide.

However, the overwhelming majority of respondents indicated that they were actually providing these core services. In rural areas, Councils are sometimes the only provider of kinder and aged services making it an impossible decision to withdraw from these services for the health and wellbeing of their communities.

Over half of respondents (63%) indicated that they were currently providing kinder services, a third indicated that they were providing childcare services and a fifth said they were providing aged care.

With finances stretched, councils are making the difficult decision to pull out of providing services they do not see as core to their role in the community.

Over half (58%) of respondents said in the past five years they had withdrawn from the provision of aged care services due to lack of funding. Only three respondents said they had not specifically ceased or reduced services in the past five years.

Some examples of services no longer provided were:

“Reseal program was not delivered in one of the last 5 years. Swimming pool hours have been reduced. Transfer station hours have been reduced. Library hours have been reduced”.

“Council has reduced or modified services (roads, sporting facilities) to meet expenditure and resourcing”.

One Council has been forced to shut the community swimming pool¹

Lack of funds forced Southern Grampians Shire to close a swimming pool that is of great importance to one of its local communities.

The 25-metre Glenthompson outdoor swimming pool was built in 1975.

Its ageing infrastructure makes it hard to meet legislative water quality standards and the cost per swim is unsustainable, ranging from \$65.25 [2023-24] to \$109.95 [2022-23].

Local Government Victoria found that the average costs per visit to pools in Victoria’s large rural shires was \$17.59.

Council would need to invest \$435,000 (money it simply doesn’t have) over the next 3 years to maintain the pool so it can open from December to March.

This amount doesn’t include necessary works to existing changerooms or swimming pool surrounds.

When asked about community reactions to these reductions in services, councils responded with:

“Happy that the rates were not increasing but disappointed in the loss of services.”

“Aged care had a long preparation and a very smooth transition to a new provider for all clients so was not poorly regarded in the community. Cuts to asset renewals and town beautification (e.g. signage, wayfinding, Christmas decorations), have elicited opposition and accusations of waste/lack of investment/poor service”.

Service provision by local governments is not static, as communities change and grow so do their expectations for services and facilities.

Respondents were asked: *Why have infrastructure needs and service delivery obligations changed for your council in recent years?*

No council that responded to the survey indicated that the needs had not changed.

The top three reasons for changes were:

- Ageing infrastructure requiring maintenance or replacement
- Changing community expectations for services
- Increased natural disasters.

¹ A full breakdown of this example is attached at the end of this submission.

Many rural communities face the brunt of natural disasters, often on the forefront of changes in climate with catastrophic weather events becoming frequent, leaving cash-strapped rural councils and their communities to pick up the pieces and rebuild.

Often this recovery and emergency preparation is done by local government on areas of Crown land. Disproportionately rural councils are the ones who face this issue of having to maintain or partly support the management of crown land, often with no resources or support from the state government.

Waste collection is a specific example of this. Many Crown land assets, like natural parks and foreshores, do not have rubbish facilities. Instead, visitors are encouraged to take their rubbish and waste out with them. The result of this policy is that the waste is left in carparks and in surrounding towns and become the responsibility of local government to manage, with no financial support from the State government.

To try and address these changing expectations councils have tried to adapt. Most respondents said that to meet increased demands they had sought out grant funding from state and federal governments.

Another way councils have been adapting to changes has been to outsource services, with a third of respondents indicating their council had taken this approach. A quarter of respondents also said they had looked at raising fees and charges.

(3) the overall revenue structure of local government;

(4) whether the existing revenue structure is sustainable and appropriate or if alternative models of funding would be more sustainable and appropriate; and

Rural communities across Victoria and Australia are entitled to high-quality services and support from their local government.

Our research shows that rural councils are working incredibly hard to continue to deliver for their communities with increasing financial pressures.

The work of the “*Alternative Source of Income for Local Government*” report, demonstrates that councils do not have the capacity to raise a significant amount of additional revenue to meet their growing cost pressures.

The current revenue structure is not sustainable or appropriate. New models do need to be implemented, and fundamentally more money needs to go into the system. Local councils cannot be expected to continue doing more with less resources

Then Victorian and Federal Governments must increase the available funding support to local government. The overwhelming majority of our survey respondents said that the provision of direct untied funding would be the main way they would like to see governments support them.

In addition to this, councils also identified increased grant schemes for specific issues like roads as another way to support local government. Funding to support collaborative initiatives between federal, state and local governments was also identified as another mechanism to offer support.

Beyond financial support, a third of respondents would like to see the government provide policy guidance and legislative support to assist local councils to be efficient and effective

organisations. Another third would welcome the government offering training and capacity-building programs also aimed at improving the capabilities of councils and their staff.

The reduction of red tape and providing funding over longer periods of time were also identified as ways that the government could help councils manage their ongoing financial sustainability. Councils are now in the situation of having to apply annually to a range of grants, including Financial Assistance Grants, to maintain their income. However, grant and application writing is a significant drain on limited council resources and staff.

It is clear from these responses that our members are doing everything they can to raise revenue and be responsible financial managers to give certainty to their staff and their communities. But they are increasingly running out of options to address their financial pressures.

(5) any other related matters.

Attracting and retaining staff is a key issue that is linked to the financial pressure facing small rural councils. Inadequate funding, lack of certainty around funding, insufficient support and the shifting of state government responsibilities onto local government were identified as creating insecurity for local government as organisations and then for their staff.

The overwhelming majority of respondents told us that they have difficulty attracting and retaining skilled staff. Many businesses, not just local governments, in rural areas face this problem. They often need to attract people from metropolitan or regional cities and they struggle to provide adequate housing, competitive salaries, career progression and in some communities access to enabling services such as childcare and schools was also an impediment.

The difficulty in attracting staff is across a wide range of areas/occupations. The most common cited were planners, building surveyors, environmental health, engineering and senior management all ranked highly as areas where our members struggle to find staff.

Looking specifically at the use of labour hire, two thirds of respondents said that they use labour hire. When asked why they used labour hire many respondents indicated that it was because they were unable to attract permanent staff.

Below are some of the reasons that were shared with us:

“Topping up our core staff for things that are either very specialised skills that are not worth us employing on an ongoing basis, or highly unpredictable in nature.”

“Short casual positions where we are unable to attract candidates. Trainees and Apprentices through suitable organisations to ensure thorough training program.”

“Swimming pools, project managers. Due to inability to recruit qualified candidates within the salary we are able to pay.”

“For long term vacant roles where we have been unable to recruit. Design engineer, Building Inspector.”

“Gap filler. We tend toward insourcing most activities wherever possible and occasionally need ‘short term gap fillers’.”

For many of our members, the use of labour hire is a consequence of other factors, including financial pressure rather than a choice to outsource services.

In some small rural communities, the local council is often one of the largest employers. The success and security of the council is inextricably linked to the well-being and prosperity of the area.

Conclusion

The financial pressure on councils is growing every year. This is not a new issue. The Victorian Government examined this issue in 2017 through the Rural and Regional Councils Sustainability Reform Program conducted by KPMG.

Our subsequent research shows that the situation has not improved and for some councils has worsened. With councils having very few options to raise revenue, but still needing to maintain thousands of kms of roads, numerous sporting facilities, community programs, parks, recreation areas, planning and surveying, waste management, maternal and child health, disability services, libraries, arts programs and many more, there are really only two options.

The first is for councils do less, they scale back services and cease some services altogether **or** more money is invested in the sector to ensure that every Victorian, no matter where they live, is able to access services and every community has the chance to thrive.

Rural Councils Victoria looks forward to the opportunity to represent our 34 members at a public hearing during the course of this inquiry.

SOUTHERN GRAMPPIANS SHIRE - SWIMMING POOL CASE STUDY

Background

Southern Grampians Shire is located in Western Victoria. The geographic area is 6,654 square kilometres. The Shire's population is 16,590 [2021]. Hamilton is the largest town with a population of 10,346 [2023] and the service centre for the surrounding small towns of Balmoral, Branxholme, Byaduk, Cavendish, Coleraine, Dunkeld, Glenthompson, Peshurst & Tarrington.

Southern Grampians Shire has 6 outdoor pools and 1 indoor 25 metre pool, which is located in the Hamilton Indoor Leisure and Aquatic Centre [HILAC]. The outdoor pools are located at Balmoral, Coleraine, Dunkeld, Glenthompson, Hamilton and Peshurst. The Coleraine and Hamilton outdoor pools are 50 metres long and the other pools are 25 metres long. All the outdoor pools are more than 40 years old.

Like many rural Councils, Southern Grampians Shire is faced with challenges surrounding ageing infrastructure, decreasing population and financial pressures associated with limited income streams to maintain and renew community assets. Council's main sources of income are rates [50% of income] and operating grants [22% of income].

Council's adopted minimum service level for swimming pools is safe, open and reliable. The outdoor pools are opened from the first weekend in December and close following the last weekend in March, meaning the outdoor pools are open for a maximum of 4 months of the year. There is also a temperature threshold which means if the forecast temperature is less than 23 degrees, the pool is not opened. If the forecast temperature is 35 degrees or higher at the weekend, opening hours are extended.

In terms of operation of swimming pools, another challenge is the availability of lifeguards. Currently for the smaller pools, one lifeguard can work an uninterrupted 5 hour shift. In the 2022-2023 season, lifeguard shortages were the main factor affecting operating days with the pools at Dunkeld, Coleraine, Glenthompson and Peshurst affected. The challenge of ensuring lifeguard availability is expected to be more challenging with the expected future announcement that the Royal Lifesaving requirement will be to provide more than one lifeguard at any outdoor pool, regardless of size or patronage.

In the report, **The State of Aquatic Facility Infrastructure in Australia [2022]**, Royal Life Saving Victoria have identified that the basic cost to replace an outdoor swimming pool is in excess of \$10 million [more than 20% of Council's total income]. The report notes that over 500 Australian public swimming pools will require replacement in the next 10 years. With the majority of public pools owned and operated by local government, the report notes that 64% of all renewal and new aquatic facility construction is funded by local government.

Newly created state government funding streams for aquatic and stadium facilities will be highly competitive and will require successful applications to demonstrate high community use, all year round use, financial and environmental sustainability and be strategically planned. Most of Southern Grampians Shire's outdoor pools would fail to meet those criteria.

Glenthompson Swimming Pool

The Glenthompson community population is approximately 256 residents [ABS Census 2021]. The Glenthompson swimming pool was built in 1975. The pool's ageing infrastructure,

expansion joints and filtration system are at a condition and standard that due to their age, make it difficult to meet legislative water quality standards.

Current yearly operating expenditure at the pool is approximately \$65,000 plus CPI. Over the next 3 years, operating costs and proposed capital expenditure total at least \$435,000 for a seasonally operated facility which is underutilised by the community. This expenditure doesn't include any works to the semi-enclosed amenities that were constructed at the same time as the pool. These facilities are in a poor condition, require significant investment and do not meet current accessible requirements and standards under the Building Code, which would be required to be met if any future works are completed at a significant cost.

A recent Victorian Auditor General's Office [VAGO] report examined the cost of swimming pools to the community and found, for example, that the City of Greater Bendigo's swimming pool at Raywood was named as being unsustainable at a cost of \$78 per visit. In addition, Local Government Victoria's performance reporting framework found that the average costs per visit to pools in Victoria's large rural shires was \$17.59.

Current use of the Glenthompson Swimming Pool [based on people swimming in the pool] is the lowest of Council's 6 outdoor pools. The cost per swim has ranged from \$65.25 [2023-24] to \$109.95 [2022-23].

See the following tables:

Table 1 – 2022-23 Outdoor Pool Season

	Hamilton	Coleraine	Balmoral	Dunkeld	Penshurst	Glenthompson
Estimated population within 10 min drive of pool	10,896	1228	650	851	875	316
Operating days	85	69	76	67	55	48
Total visits	7636	2135	1996	2777	1061	602
Daily visits	89.8	30.9	26.3	41.4	19.3	12.5
Visits per resident	0.7	1.7	3.1	3.3	1.3	2.1
Total Operating Costs	\$177,868	\$114,035	\$78,387	\$77,970	\$65,333	\$66,192
Cost per operational day	\$2,093	\$1,653	\$1,031	\$1,164	\$1,188	\$1,379
Cost per visit	\$23.29	\$53.41	\$39.27	\$28.08	\$61.58	\$109.95

Table 2 – 2023-24 Outdoor Pool Season

	Hamilton	Coleraine	Balmoral	Dunkeld	Penshurst	Glenthompson
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Estimated population within 10 min drive of pool	10,896	1228	650	851	875	316
Operating days	104	87	92	84	66	66
Total visits	11,289	3,281	2,433	3,457	1,294	949
Daily visits	106.25	38.25	32.5	51.75	25.75	18.25
Visits per resident	1.03	2.7	3.74	4.1	1.48	3
Total Operating Costs	\$169,005	\$110,616	\$73,550	\$77,158	\$71,760	\$61,899
Cost per operational day	\$1,625.04	\$1,271.45	\$799	\$1,087.30	\$1,07.30	\$937.85
Cost per visit	\$14.97	\$33.70	\$33.23	\$22.32	\$55.45	\$65.25

Earlier analysis of use of the Glenthompson pool in 2016/17 showed annual attendance of 10 per day and cost per swim of \$45.45.

Decision to Decommission the Pool

Discussions regarding the use of the Glenthompson Pool have occurred off and on over many years. There was considerable community engagement regarding the use and future of the pool in late 2017.

There are 4 pools within 20 minutes drive of Glenthompson – Willaura, Dunkeld, Lake Bolac & Peshurst.

In summary, the continued operation of the Glenthompson Swimming Pool is unsustainable on a usage and financial basis, with the level of investment of \$435,000 over the next 3 years required to maintain the pool to open from December to March. This amount doesn't include any other works to the existing changerooms or swimming pool surrounds.

At the April 2024 Council meeting, Council voted to decommission the Glenthompson Swimming Pool. Continuing discussions are occurring with the Glenthompson community to determine their future priorities for the town.

