

Our Ref: sw:lt
Contact: Stephen Wall

15 February 2008

Local Government Study
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir/Madam

Submission – Local Government Study Productivity Commission

The following comments have been prepared for consideration as part of the production of the above mentioned study. The comments have been compiled following observation of issues surrounding collection of own source revenue at Surf Coast Shire Council.

Introduction

Surf Coast Shire is located in southwest Victoria, with its main township, Torquay, 21 kilometres south of Geelong and 120 kilometres from Melbourne. It covers an area of 1562 square kilometres with some 55 kilometres of coastline defining its southern boundary. The world famous Great Ocean Road begins in Torquay and traverses the Shire through to its western border.

The Shire has a permanent population of 24,124 (2006 Census) but has over 45% of its properties owned by people who do not live permanently within Surf Coast Shire. The population swells significantly on weekends and during the summer period.

A significant impact of the high level of absentee property owners is that Council receives a diminished level of Federal Assistance Grant allocation compared with like Councils, as resident population is a significant factor in the calculation methodology.

Surf Coast Shire is a 'sea-change' shire, and is strongly influenced by the impact of tourism. During peak summer months the population of the coastal townships swells threefold, placing increased pressure on the provision of Council services, yet the opportunities for Council to generate revenue from visitors remains minimal.

Budget Rates and Charges Revenue 2007/08

Surf Coast Shire's adopted budget for the 2007/08 financial year reports its level of rate revenue to be collected is as follows:

General Rates	\$14,557,820
Farm Rate	\$1,234,822
Commercial/Industrial Rate	\$1,867,112
Vacant Residential Land	\$1,466,952
Total Rates	\$19,126,706

Annual Service Charges

Waste Collections & Disposals (Urban)	\$3,425,329
Waste Collections & Disposals (Rural)	\$307,106
Municipal Charge	\$1,695,204
Total Charges	\$5,427,639

This represents a total amount to be raised from rates and charges of \$24,554,345, which equates to 55% of Council's total operating revenue (see chart following).

Council raises this revenue from 17,582 rate assessments.

Council has also in recent times utilised special charge schemes to generate additional income from its rate payers to fund specific infrastructure works in particular areas of the shire. The funding model uses a calculation of rate payer benefit as a methodology to identify the amount of contribution applicable to various properties.

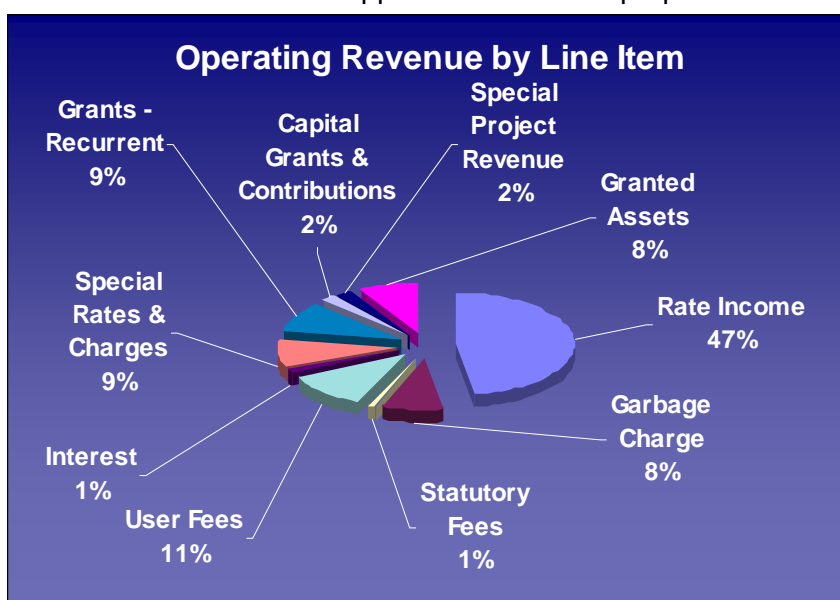


Chart: Operating Revenue as reported in the Surf Coast Shire budget 2007/08.

Comparison with Other Victorian Council's

The performance of Surf Coast Shire is generally compared against both the average for its 'like' grouping of large rural Councils and the State average. In Victoria Councils are grouped into 5 different categories as identified in the following table. Surf Coast Shire is included in the large (rural) shires grouping.

Category Description	Councils within Category
Inner Melbourne	18
Outer Melbourne	13
Regional Cities	12
Large Shires	16
Small Shires	20
Totals	79

Councils that comprise the Large Rural grouping are:

Baw Baw	Macedon Ranges
Campaspe	Moorabool
Corangamite	Southern Grampians
Colac-Otway	Glenelg
Mitchell	Moir
Moyne	East Gippsland
South Gippsland	Murrindindi
Wellington	Surf Coast

When considering rate revenue the following comparisons appear of interest:

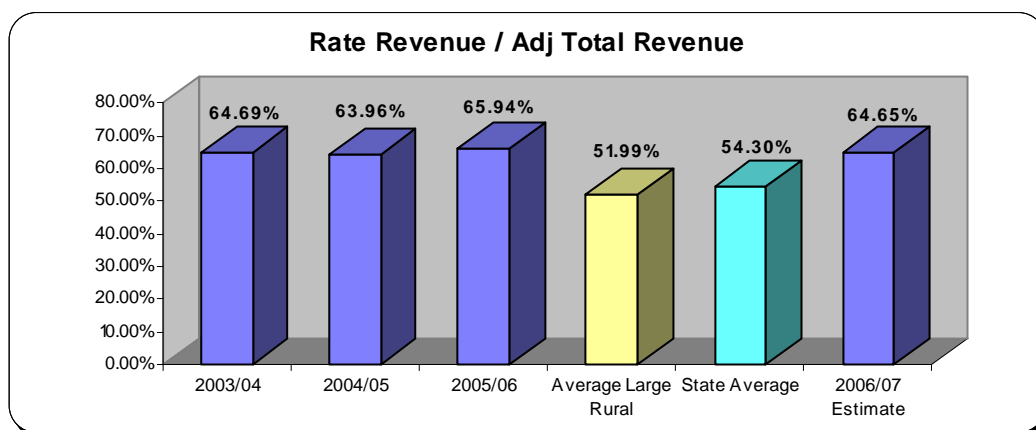
1.1 Rate Revenue / Adjusted Total Revenue

Explanation:

This ratio shows revenue raised by way of general rates, expressed as a percentage of total revenue as adjusted by removal of net gains from asset sales, asset contributions in kind (granted assets), capital grant funding and asset revaluation adjustments.

Council's Ratio at 30 June 2006: 65.94%

Council's Group Ranking: Highest of the 16 Councils



Commentary on Ratio:

Surf Coast has the highest dependence on rate revenue of the Large Rural Shire grouping and is significantly higher than the group average.

1.2 Rates per capita

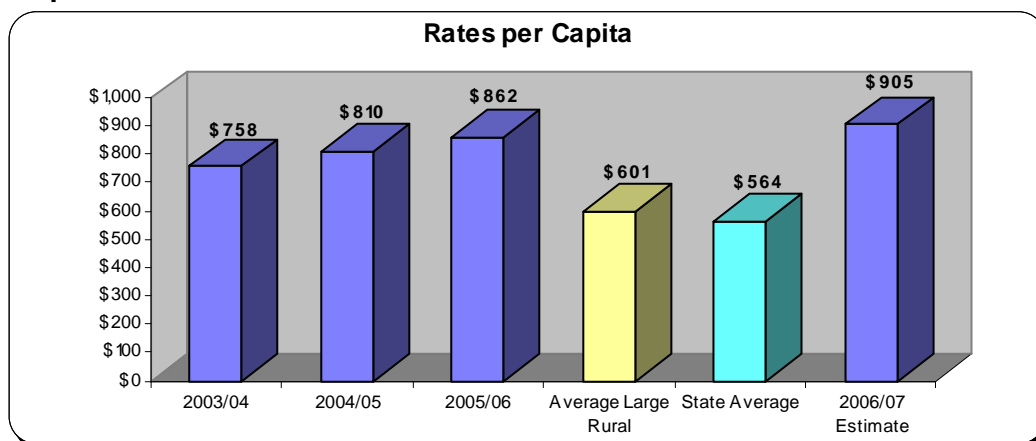
Explanation:

This ratio highlights the average rates per capita calculated by dividing total Rate Revenue by population.

Council's Result at 30 June 2006: \$862

Council's Group Ranking: Highest of the 16 Councils

Graphical Presentation:



Commentary on Ratio:

This ratio is impacted on by Surf Coast's high percentage of absentee property owners. This is reflected by Council's population density of 1.36 persons for each rateable assessment compared to the average for the grouping of 1.74.

1.3 Rates per assessment

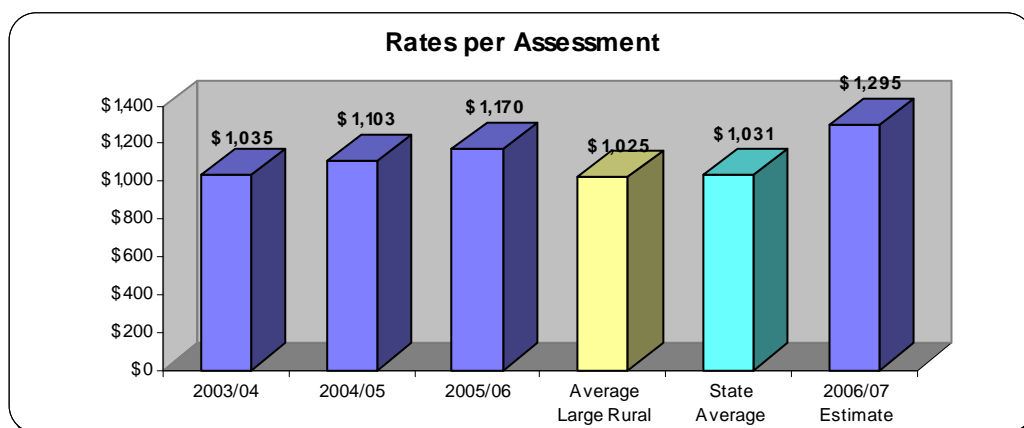
Explanation:

This ratio highlights the average rates per assessment calculated by dividing Rate Revenue by the number of rateable assessments.

Council's Result at 30 June 2006: **\$1,170**

Council's Group Ranking: **2nd highest of the 16 Councils**

Graphical Presentation:



Commentary on Ratio:

Rates per assessment is a more accurate gauge of rating effort as it removes the distortions caused by differing population densities. However the comparison still indicates that Surf Coast has rating levels higher than the majority of its like council grouping and State average.

In summary, the rating indicators illustrate that Surf Coast has been required to depend on its rate revenue to a higher degree than its like council grouping due to reduced grant outcomes, a fact which exposes the inequitable assumptions in the level of the Federal Assistance Grants and Victorian Grants Commission methodology. The scope for Council to increase its rates to a significant scale is limited.

Capacity to Pay

There have been numerous studies and theories presented in regard to the impact of the ageing population. It is clear that as more of the population enter the retirement phase of their life, their level of household expenditure reduces (in proportion with the level of household income).

Surf Coast Shire uses the Capital Improved Valuation (CIV) of a property as the basis of the rating calculation. In a 'sea-change' environment, property is in high demand, with market valuations often increasing above the rate of consumer price index. Council rates, as with other taxes, are compulsory, and retirees are faced with a significant expense that they have no control over, with the exception of selling the family home.

Mr. Hadley Sides, CEO of the City of Stonnington, recently completed a study that suggests that Council rates as a percentage of average household expenditure, where the head of the household is over age 65, will increase from approximately 4% in 2001 to in excess of 9% by 2031. This suggestion was based on an assumed annual rate bill of \$900 indexed at 3% above CPI growth, using DSE population projections and ABS survey of income and household 2003-04 data. A study such as this suggests that Council rates and charges are not sustainable in the long-term.

Conclusion

This submission contains information to help illustrate the issues faced by Surf Coast Shire in relation to rates and charges.

As has been demonstrated, Surf Coast Shire has average rates that appear higher than comparable councils and state averages. This suggests that Council has resisted pressure to minimise annual rate increases, and to adopt rate increases that provide adequate levels of revenue to deliver services demanded.

Surf Coast Shire has long been critical of the calculation methodology for distribution of Federal Assistance Grants within Victorian, and can demonstrate a deficiency in provided grant compared to like Councils, of between 1 and 2 million dollars per annum. With population forming a significant basis of the calculation methodology, having residents that do not permanently reside in the shire, but have properties that still require to be serviced the same as permanently occupied homes, Surf Coast Shire is certainly negatively impacted. The level of grant that Council is missing out on equates to between 4% and 8% of Council general rates levied.

The issue of sea-change communities is another issue worthy of comment. Council areas that experience high visitation from tourists, require additional Council services with limited opportunity for Council to derive additional revenue. The Great Ocean Road is recognised world wide and the Surf Coast Shire dedicates resources to managing the local, national and international visitors that come to visit this icon. The question of who should pay for these resources is one that is often raised.

In providing this submission it is acknowledged that this topic is a complex one and I would welcome the opportunity to further elaborate on the information and comments provided. Please feel free to contact me on 5261 0640.

Yours faithfully

Stephen Wall
Director of Corporate Services