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Economy and
Infrastructure Committee

Local government funding and services

Inquiry

November 2024

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About the Committee

Functions

The Legislative Council Economy and Infrastructure Committee inquires into and reports on any proposal, matter or thing concerned with agriculture, commerce, infrastructure, industry, major projects, public sector finances and transport.

The Committee consists of members of the Legislative Council from the government, opposition, and other parties.

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Terms of reference

Inquiry into local government funding and services

On 3 May 2023, the Legislative Council agreed to the following motion:

That this House requires the Economy and Infrastructure Committee to inquire into, consider and report, by 28 November 2024, on local government funding and service delivery in Victoria, including but not limited to —

- (1) the effects of cost shifting from the state and federal governments to local councils in an examination of vertical and horizontal fiscal imbalances;
- (2) whether local councils are adequately delivering on their core service delivery objectives;
- (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
- (5) any other related matters.

Chair's foreword

Local government is one of the three tiers of government in Australia, and in many ways is in the most difficult position of all of them. It is the level of government that is closest to individual communities as it is drawn from people within the communities and provides services that, on a practical level, are very important to those local communities.

At the same time as meeting the needs of local communities, local government is extremely limited in its ability to raise revenue and thereby pay for the services that it is expected to provide.

During this Inquiry, the Committee heard from a significant number of local government representatives about the challenges that they are facing in meeting the demands of the community today and in remaining sustainable into the future. The Committee heard about the tensions between the financial challenges faced by local government councils and the capacity of ratepayers to meet the financial demands made on them. It also heard from councils about cost shifting from the other levels of government onto local government, and the financial strain that this places on councils.

In the submissions received by the Committee and evidence given in public hearings, the concerns of both local government councils and ratepayers were canvassed widely. This report has attempted to provide a balanced analysis of the issues faced and to provide some ways forward.

I would like to thank the people who took the time to provide their expertise and views in the high quality submissions received by the Committee. I would especially like to thank those who took the time to appear before the Committee to give evidence in public hearings. The Committee greatly appreciated the effort made by these witnesses.

I would also like to thank the Committee members who approached the issues raised during the Inquiry professionally and with courtesy to each other and to those appearing before the Committee. As with many inquiries, there are a number of different views held by Committee members and at times these can be quite opposing views. Despite the differences, members maintained a level of courteous and respectful discussion throughout.

Finally, I would like to thank the Committee's secretariat for their professionalism and dedication to the Inquiry and this Report. Committee manager Michael Baker, Inquiry Officer Kieran Crowe, Research Assistant (and now Inquiry Officer) Jessica Summers all provided very high quality support for the Committee's work. In addition, Administrative assistance provided by Tayla Barker, Julie Barnes and Sylvette Bassy

was invaluable to the smooth running of the Inquiry. The committee would also like to acknowledge Jeffrey Ding, a graduate intern, who provided valuable background research for the Inquiry.

A handwritten signature in black ink that reads "Georgie Purcell". The signature is written in a cursive, flowing style.

Georgie Purcell MLC
Chair

Findings and recommendations

2 Local government in Victoria

FINDING 1: The costs of infrastructure and service delivery have risen at a pace that outstrips the growth in grant funding. 13

FINDING 2: No consultation occurred with local government on the catchment areas. 16

3 The financial sustainability of local councils in Victoria

FINDING 3: Local councils are facing increased budget pressures due to cost shifting by state and federal governments. Without substantial changes, the financial sustainability of council operations is at risk, with some services already being reduced or discontinued entirely. 22

FINDING 4: The roles and core service responsibilities of local government in Victoria lack clear definition, creating a burden on councils to determine what is expected of them. This disproportionately impacts regional and rural councils, which face disadvantages due to limited revenue-raising capacity and the need to provide additional services arising from the geographic size of the municipality and service gaps within their communities. 22

RECOMMENDATION 1: That the Committee send a request to the Victorian Auditor-General to investigate and report on the financial impacts of cost-shifting from state and federal governments onto all Victorian councils. 23

FINDING 5: There are several issues that disincentivise councils applying to the Essential Services Commission for a higher rate cap. These include:

- a burdensome administrative process to apply
- concerns about community backlash; and
- concerns about the capacity of residents to afford higher rates, particularly in large and small shire councils.

30

RECOMMENDATION 2: That the Victorian Government review the requirements that councils must meet in applying for a higher rate cap, with a view to making the process less administratively burdensome. Any streamlined application process should not impact the Essential Services Commission's assessment of the merits of the applications.

30

FINDING 6: Victorian Treasury Corporation Loans should not replace adequate government funding and relying on these loans risks burdening councils with debt and impacts service delivery.

31

RECOMMENDATION 3: That the Victorian Government should provide councils with adequate funding for capital expenditure, rather than generating revenue through interest payments from financially strained councils.

31

RECOMMENDATION 4: That the Victorian Government act expeditiously and not delay funding for projects out of Growth Areas Infrastructure Contributions or development contributions due to the risk of escalating project costs.

31

FINDING 7: Expenditure has grown faster than council revenue in recent years. Growth is primarily driven by the steady increase in operating expenditure, which makes up the majority of council spending. Capital expenditure has also risen over this period, but varies from year to year and council to council.

41

FINDING 8: Not all Victorian councils are spending enough on asset renewal to match depreciation. While some councils are meeting their asset renewal and upgrade requirements, there is significant variation in the performance of councils and many face a growing renewal gap. No council has an asset renewal ratio of 100% when asset renewal alone is considered.

48

FINDING 9: Councils face increased asset renewal costs if they do not prioritise early and ongoing renewal in an asset's lifecycle. A failure to keep up with asset renewal results in more expensive repair and replacement costs.

50

FINDING 10: Asset renewal is a vital role of councils that is easy to neglect in favour of new capital infrastructure or services that are more readily apparent to the community. However, a failure to carry out this important task results in degraded infrastructure that is expensive to replace and can put community safety at risk. Individual councils are given the responsibility of prioritising this task against a background of competing priorities and constrained revenue.

53

RECOMMENDATION 5: That the Victorian Government consult with the local government sector to establish financial reporting requirements for infrastructure assets, whilst considering the New South Wales Office of Local Government *Local Government Code of Accounting Practice and -Financial Reporting – Section 4 – Special Schedules*.

55

FINDING 11: The renewal and upgrade of roads and bridges are a significant cost pressure, particularly for large and small shire councils due to their geographic size and comparatively small rate base. Grants programs, including Federal Assistance Grants, have regard for these issues when awarding funding. However, it remains a threat to the ongoing financial sustainability of rural and regional councils.

58

FINDING 12: Victorian councils have faced significant increases in the cost of delivering infrastructure. This is due to a rise in the cost of labour and materials. Increased infrastructure costs constitute a significant financial pressure for growth area councils who are responsible for delivering new infrastructure for their growing communities.

60

FINDING 13: Some councils, particularly in regional areas, find it difficult to offer salaries high enough to attract suitably qualified staff.

65

RECOMMENDATION 6: That the Victorian Government should reinstate the Council Planning Flying Squad for its 48 regional and rural councils, an initiative to provide short-term expertise and assistance to ease the backlog of planning requests. This will enhance the capacity of councils to address planning challenges effectively and ensure timely project approvals.

67

RECOMMENDATION 7: That where possible, councils should partner with TAFE's and universities and offer traineeships or apprenticeships in professions with skills shortages.

70

FINDING 14: Extreme weather events driven by climate change are a significant cost pressure on Victorian councils. Among other things, this includes:

- disaster relief efforts, including staff resourcing
- insurance premiums
- the repair of damaged infrastructure; and
- the proactive maintenance or upgrade of infrastructure to improve climate resilience.

72

FINDING 15: In the context of financial reporting, adjusted underlying results provide a truer picture of the financial health of councils than the net operating position, because it excludes grants that may fluctuate or be inconsistent. To remain financially sustainable, councils should record adjusted underlying surpluses over the medium to long term.

84

FINDING 16: The cash reserves held by Victoria's local government sector as a whole are currently adequate, but are showing signs of ongoing deterioration.

86

FINDING 17: There is no established and consistent measure for the financial sustainability of councils, leading to challenges in assessing and comparing their long-term financial health across the sector.

89

FINDING 18: The Auditor General's annual report on local government financial position forms a valuable baseline for local government viability.

89

RECOMMENDATION 8: That the Victorian Government work with the sector, including councils and peak bodies, to establish a local government sustainability framework. The elements of this framework should incorporate:

- a risk-based approach to financial sustainability
- different financial criteria for different council groups; and
- the inclusion of adjusted underlying result, unrestricted cash, and asset renewal indicators in addition to the financial indicators outlined in the Local Government Performance Reporting framework.

89

FINDING 19: Victorian councils face a trend of deteriorating financial sustainability across all council types, a trend predicted to continue over the next five to ten years, due at least in part to cost shifting.

91

4 Rate capping

FINDING 20: Rate capping and cost shifting has significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.

96

FINDING 21: Approximately 40% of ratepayers have experienced a decrease in their rates since the introduction of rate capping in 2016–17. The groups of ratepayers that have experienced rate cap reductions are residential property owners and commercial and industrial property owners. 44% of rate payers have seen increases above the rate cap. Some ratepayers, particularly some farmers and rural property owners have experienced rate increases due to the way the rate cap is applied by their councils

97

FINDING 22: Farming, rural properties and small businesses have been disproportionately affected by Victoria's rate cap, with many experiencing significant rate increases. This is primarily due to rising property valuations, council's choices when striking the rate in the dollar, and the use of differential rating by councils. This has resulted in higher rates for farmers, often exceeding their capacity to pay, and exacerbating financial pressures on the agricultural sector.

101

RECOMMENDATION 9: That the Victorian Government instigate a review of the ratings system to ensure no particular category is carrying an unfair burden of the rates levied, with particular reference to farmers, small businesses and rural property owners.

101

FINDING 23: Any increase in rates as a result of modifications to the rate cap are constrained by the ability of ratepayers to afford higher rates.

107

FINDING 24: Local councils face significant challenges in preparing their annual budgets due to delays in receiving essential financial information regarding the rate cap.

111

RECOMMENDATION 10: That the Victorian Government should provide local councils with timely and clear information regarding the annual rate cap, enabling them to plan and budget more effectively for the coming financial year.

111

RECOMMENDATION 11: That the Essential Services Commission conduct a review of the rate cap formula. Such a review should consider whether a local government cost index should be used that would give weighting to the Wage Price Index and construction costs and have regard for the capacity of ratepayers to bear higher rates.

117

5 Grants

FINDING 25: Most councils advocate for increased untied funding from the Victorian Government. Councils state that untied funding would allow for more flexible expenditure of funds according to local needs and wouldn't require councils to incur significant costs applying to competitive tied grant processes.

122

RECOMMENDATION 12: That the Victorian Government should increase untied funding to councils within specific categories, such as roads, to allow councils greater flexibility in addressing local needs and to reduce the costs and administrative burden of applying for competitive, tied grants.

122

FINDING 26: Reliable multi-year grant arrangements would provide councils with more certainty, stability and predictability.

123

RECOMMENDATION 13: That the Victorian Government should ensure it consults the local government sector before releasing new grant programs to ensure it aligns with current community needs and strategic priorities.

123

FINDING 27: Council asset pools requiring management exacerbate financial sustainability challenges for councils in the long term. This is of particular concern to smaller, rural and regional councils who have more a limited financial capability to meet ongoing operating, maintenance and renewal costs.

124

FINDING 28: Limited capacity to meet long term operating, maintenance and renewal costs is deterring smaller rural and regional councils from applying for new asset grant programs.

124

RECOMMENDATION 14: That the Victorian Government should look to provide grant programs wherever possible that support asset renewal and maintenance to address growing asset renewal backlogs and the needs of local communities.

125

FINDING 29: Failing to acknowledge resource disparities between councils may result in grant funding being diverted away from deserving projects in rural and regional areas to councils with the capacity to prepare high quality grant applications.

127

FINDING 30: Requiring councils to undertake substantial preliminary works to participate in grant programs has the potential to entrench disadvantage between well-resourced and lesser-resourced councils in Victoria. **129**

RECOMMENDATION 15: That the Victorian Government review the grant application process with a view to simplifying it. **129**

RECOMMENDATION 16: That the Victorian Government provide additional grant writing support for smaller councils. **129**

FINDING 31: While co-contribution grant programs can be beneficial in delivering an increased number of services, this requirement prevents some lesser resourced smaller rural and regional Councils from applying for grants. **130**

RECOMMENDATION 17: That the Victorian Government ensure grant programs take account of council financial capacity with respect to co-contribution requirements. **130**

RECOMMENDATION 18: That the Victorian Government respond to grant applications within advertised timeframes to avoid creating delivery challenges and cost escalations. **131**

FINDING 32: Overly onerous auditing and reporting requirements are deterring smaller and less-resourced councils from participating in important grant programs. **132**

RECOMMENDATION 19: That the Victorian Government review the auditing and reporting requirements of its grant programs to ensure that compliance is not so onerous that it deters smaller or less-resourced councils from participation, particularly those in rural and regional areas. **132**

FINDING 33: The Victorian Government took nine per cent of a \$2 million federal blackspot grant intended for a state and local council road intersection project under the guise of 'internal department costs', despite not overseeing or contributing financially to the project. **134**

RECOMMENDATION 20: That the Victorian Government should not take money out of Commonwealth Government grants allocated to local councils. **134**

RECOMMENDATION 21: That the Victorian Local Government Grants Commission work with councils to ensure it is clearly understood how its methodology has determined the allocation of Commonwealth Financial Assistance Grants, to ensure greater transparency in the allocation of these grants.

139

RECOMMENDATION 22: That the Local Government Grants Commission continue to review and refine the methodology it uses to allocate Commonwealth Financial Assistance Grants in meaningful consultation with councils.

141

RECOMMENDATION 23: That the Local Government Act should specify a fixed month each year for the payment of Commonwealth Financial Assistance Grants to councils, ensuring accurate management and planning of council budgets.

143

RECOMMENDATION 24: That the Victorian Government advocate to the Commonwealth Government that Financial Assistance Grants be raised to 1 per cent of Commonwealth taxation revenue.

148

FINDING 34: Many councils experience the Disaster Recovery Funding Arrangements claims process as cumbersome, needlessly complex, and laborious. This is particularly true for smaller, rural and regional councils.

152

FINDING 35: Many councils struggle to balance the high evidentiary requirements of the Disaster Recovery Funding Arrangements claims process with the need to promptly respond to safety concerns after natural disasters and extreme weather events.

152

RECOMMENDATION 25: That the Victorian Government streamline as far as practicable the evidentiary requirements of the Disaster Recovery Funding Arrangements claim process to make it more accessible to smaller, rural and regional councils.

152

FINDING 36: Lengthy Disaster Recovery Funding Arrangements claim processing times of up to three years delays critical repair works following natural disasters or severe weather events. Alternatively, it imposes significant financial risk upon councils who undertake repair works before Disaster Recovery Funding Arrangements claims are processed.

153

RECOMMENDATION 26: That the Victorian Government ensure rapid mobilisation of funding from the Disaster Recovery Funding Arrangements, with the Victorian government aiming to process claims within three months.

153

FINDING 37: By facilitating the repair of damaged assets on a like for like basis the Disaster Recovery Funding Arrangement program is increasing costs to government in the long term. This is because damaged assets are not built back better to withstand future natural disasters and severe weather events and are requiring replacement more frequently.

155

RECOMMENDATION 27: That the Victorian State Government update Commonwealth Government Disaster Recovery Funding Arrangements to allow betterment to build the resilience of local council infrastructure.

155

RECOMMENDATION 28: That the Victorian Government should reinstate a program similar to the Country Roads and Bridges Program that existed between 2011–12 and 2014–15 that is untied funding to Local Government.

159

FINDING 38: Some councils, particularly those in peri-urban areas, are required to manage fast growth without the levels of financial support previously provided to interface councils by the Victorian Government under the Growing Suburbs Fund.

160

RECOMMENDATION 29: That the Victorian Government consider creating growth funds to support infrastructure delivery for different groups of councils experiencing rapid growth, including interface, peri-urban, and regional councils and consider greater use of works in kind agreements and deliver infrastructure in a timely manner.

160

6 Cost shifting

FINDING 39: The Victorian Government has failed to maintain a 50/50 shared funding agreement for public libraries, placing a significant financial burden on local councils.

165

RECOMMENDATION 30: The Victorian Government should restore a shared funding agreement of 50/50 with local councils for the operation of public libraries.

165

FINDING 40: The Victorian Government has significantly reduced funding for the School Crossing Supervisor program and has failed to uphold its agreed equal funding arrangement with local councils. This has placed additional financial pressure on councils and risks the sustainability of this important service.

167

RECOMMENDATION 31: That the Victorian Government ensure that funding for the School Crossing Supervisor program is reinstated at a 50–50 funding split with Victorian local councils.

167

RECOMMENDATION 32: That the Essential Services Commission and Local Government Victoria engage with the local government sector, including individual councils, to discuss the best way to fund the provision of much needed community services such as public bin collection, street sweeping, and graffiti removal.

171

FINDING 41: Ongoing increases in the waste levy are a financial burden for some Victorian councils.

173

RECOMMENDATION 33: That the Victorian Government establish a fair and just funding arrangement with local councils regarding the management of legacy contaminated land sites, particularly those that have historically serviced wider local government areas.

174

FINDING 42: Councils who use the Department of Health's Central Immunisation Records Victoria have been informed they will be charged an ongoing fee to access the system. Councils reported this is in contravention of assurances that ongoing access to the scheme would remain free.

177

RECOMMENDATION 34: The Victorian Government should reverse the annual immunisation tax of \$6,000 and the \$2 fee per immunisation administered by local governments, and instead provide sufficient funding for this responsibility, which falls under the purview of the Victorian Government.

177

FINDING 43: In some cases, councils who have agreements to maintain State Government assets or Crown land are not adequately funded to do so.

179

RECOMMENDATION 35: That the Victorian Government should consider Crown Land and associated assets that are currently managed by a Committee of Management to be formally transferred to local government ownership, where requested.

179

RECOMMENDATION 36: That the Victorian Government ensure funding is provided to support agreements to maintain State Government assets or Crown Land.

179

FINDING 44: The existing funding model for Maternal and Child Health services places an excessive financial burden on local governments, particularly regarding immunisations, staffing, and facility costs, threatening the long-term sustainability of these services.

181

RECOMMENDATION 37: That the Victorian Government move towards re-instating a 50–50 funding split with Victorian local councils for maternal and child health services.

181

RECOMMENDATION 38: The Victorian Government should honour its commitment to fund 100% of its 'Free Kinder' program and the three- and four-year-old kinder programs, and not cost-shift to local government enormous capital and recurrent costs.

182

RECOMMENDATION 39: That Local Government Victoria work with the sector to develop a co-design process to ensure that the impacts of legislation on local government are considered.

183

RECOMMENDATION 40: That the Victorian Government should provide increased support and funding for weed and roadside management of State Government owned areas to assist local councils in maintaining safe and accessible road networks.

183

RECOMMENDATION 41: That the Victorian Government work with the sector to develop a co-design process to ensure that the impacts of regulation on local government are considered.

184

FINDING 45: Many statutory service fees charged by local councils, including planning fees, are set by the Victorian Government. These fees are set too low for some councils to recover the cost of providing the service.

185

FINDING 46: Awareness of and compliance with the Victorian State-Local Government Agreement amongst Victorian Government Departments and agencies is low. Compliance with the agreement may have resulted in a better understanding of the challenges faced by local government and more realistic compliance timelines. **195**

RECOMMENDATION 42: That Local Government Victoria take a more prominent role in promoting knowledge of the *Victorian State-Local Government Agreement* amongst Victorian Government departments and agencies. **195**

RECOMMENDATION 43: Local Government Victoria should report annually on the compliance of the Victorian departments and agencies in fulfilling their role as part of the *Victorian State-Local Government Agreement*. **195**

FINDING 47: There is a lack of Victorian Government coordination and oversight on the nature and extent of cost shifting that has been mandated by the State Government on local councils. **196**

RECOMMENDATION 44: That Local Government Victoria work with local councils and government departments and agencies to conduct a review to determine the nature and extent of cost shifting faced by Victorian councils. **196**

7 Core services

RECOMMENDATION 45: That the Victorian Independent Remuneration Tribunal review the base allowances of Councillors to ensure it is not barring good candidates from stepping forward to represent their communities. **203**

RECOMMENDATION 46: That the Victorian Government ensure requirements around councillor training and professional development are adequately funded. **212**

RECOMMENDATION 47: That the Victorian Government support local government in creating shared service models, including I.T. and procurement. **212**

RECOMMENDATION 48: That the Victorian Government review the *Municipal Association Act 1907* to ensure it remains fit for purpose and reflects the full scope of the Municipal Association of Victoria's contemporary responsibilities. **213**

What happens next?

There are several stages to a parliamentary inquiry.

The Committee conducts the Inquiry

This report on the Inquiry into local government funding and services is the result of extensive research and consultation by the Legislative Council Economy and Infrastructure Committee.

The Committee received written submissions, spoke with people at public hearings, reviewed research evidence and deliberated over a number of meetings. Experts, government representatives and individuals expressed their views directly to us as Members of Parliament.

A Parliamentary Committee is not part of the Government. The Committee is a group of members of different political parties (including independent members). Parliament has asked us to look closely at an issue and report back. This process helps Parliament do its work by encouraging public debate and involvement in issues.

You can learn more about the Committee's work at: <https://www.parliament.vic.gov.au/eic-lc>.

The report is presented to Parliament

This report was presented to Parliament and can be found at: <https://www.parliament.vic.gov.au/get-involved/inquiries/localgovernmentfunding/reports>.

A response from the Government

The Government has six months to respond in writing to any recommendations made in this report.

The response is public and put on the Inquiry page of Parliament's website when it is received at: <https://www.parliament.vic.gov.au/get-involved/inquiries/localgovernmentfunding/reports>.

In its response, the Government indicates whether it supports the Committee's recommendations. It can also outline actions it may take.

Chapter 1

About the Inquiry

1.1 Terms of reference

On 3 May 2023, the Legislative Council agreed to the following motion:

That this House requires the Economy and Infrastructure Committee to inquire into, consider and report, by 30 June 2024, on local government funding and service delivery in Victoria, including but not limited to —

1. (the effects of cost shifting from the state and federal governments to local councils in an examination of vertical and horizontal fiscal imbalances;
2. whether local councils are adequately delivering on their core service delivery objectives;
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
5. any other related matters.

As a result of other inquiries before the Committee, the tabling date was extended to 28 November 2024.

1.2 Submissions

In May 2024, the Committee sought submissions from key stakeholders, including all 79 local government councils in Victoria, as well as ratepayers associations, peak bodies and government organisations.

In addition to specific invitations, the Committee advertised widely to seek submissions from the broader community. In addition to metropolitan media, advertisements were placed in social media and via news alerts.

The Committee received 114 submissions in total and a list of these is included in Appendix A.

1.3 Public hearings

Following the closing of the submission period, the Committee commenced a series of public hearings, in Melbourne, regional centres and peri-urban areas on the interface between metropolitan and regional Victoria. A full list of the public hearings and witnesses is provided in Appendix A.

After commencing its hearings in Melbourne with government witnesses and peak bodies in June 2024, the Committee held hearings in regional Victoria at Camperdown, Bendigo and Traralgon through August and September. Following the regional hearings, the Committee held hearings in peri-urban regions in Broadmeadows, Frankston and Melton (Cobblebank) through September and October. These peri-urban regions represent some of the greatest local government growth areas in Australia and therefore the challenges facing Councils generally are sharply felt in these areas. Finally, the Committee held its final hearings in Melbourne in early October.

Evidence for this Inquiry has been provided to the Committee in the form of submissions and in verbal evidence given in public hearings. Both of these formats have equal weight and are both used by the Committee in reaching its findings and recommendations. While equal, they do have some differences in what they provide. Submissions tend to provide detailed argument, empirical data and give individuals and organisations an opportunity to strongly state their positions. Giving evidence in public hearings provides an additional layer of evidence. This allows the Committee to drill down more specifically on issues raised and provides for a more nuanced examination of evidence provided.

For this reason, the Committee was disappointed that a number of local government councils chose to decline the invitation to provide submissions or to appear to give evidence in public hearings.

In some cases, the councils pointed to the fact that they were in the caretaker period prior to local government elections and argued that this precluded their appearance in the hearings. They stated that the caretaker provisions did not allow them to provide any facilities for the public hearings, such as council chambers, which are often provided to parliamentary committees when holding regional hearings.

The Committee does not accept that the rules around the caretaker period in any way preclude council officers appearing before a parliamentary committee. The rules preclude councils and their employees to engage in 'election-related activities'. In the Committee's view, appearing before a parliamentary committee to answer questions is in no way an election related activity. This is particularly so when considering that the councils declining the invitation had already provided submissions to the Inquiry well before the caretaker period. These submissions would have been the focus of the hearings.

In the Committee's view, the councils who declined the invitation to appear missed an opportunity to reinforce their position that the current funding arrangements are not sustainable and this decision undermines the strength of their argument.

By contrast, the Committee would like to express its appreciation to those councils that did not take this position and willingly appeared in public hearings and provided the Committee with extremely valuable evidence. These councils are listed in Appendix A.

1.4 The report

This report represents an analysis of evidence provided to the Committee in submissions and verbal evidence, as well as secondary research undertaken by the Committee. It makes 47 findings and 48 recommendations.

Chapter 2 provides an overview of the structure of government and local government in Victoria and the complex funding arrangements that currently exist.

Chapter 3 of the report considers trends in the financial sustainability of councils in Victoria and some of the particular cost pressures they face.

Throughout the Inquiry, the Committee heard concerns about the long-term financial sustainability of some councils under the current financial arrangements. The related issue of rate capping, which places limits on the capacity of councils to increase their revenue to meet rising costs, is discussed in detail in Chapter 4.

Chapter 5 of the report examines the system of grants that is vital for local government to function, and considers some of the concerns and limitations in the current system of grants from both Commonwealth and state governments.

A key concern raised during the Inquiry by a number of councils and associated organisations was the process of cost shifting, whereby the Victorian Government adds responsibilities or changes the financial conditions of Victorian councils. This has substantial implications for the financial position of councils and is considered in detail in Chapter 6.

Related to this, as well as to the broader question of the capacity of local councils to meet the demands of their communities, is the question of core services. Chapter 7 examines the issue of what local government should be doing with its resources, and considers the varying views expressed during the Inquiry.

Chapter 2

Local government in Victoria

2.1 Overview

The governance and funding arrangements for government in Australia are complex and often not well understood. For many in the community, government is considered a single entity. The reality is government is provided by three separate tiers, and each tier operates in quite different contexts, which need to be understood separately. The relationships and interactions between the levels of government also need to be understood before a reasonable understanding of the challenges faced by local government can be reached.

This Chapter considers the current governance and funding arrangements for local government in Victoria, including the role of other levels of government in their financial sustainability.

It should be noted that data related to local government finances comes from a number of sources and none of the sources are totally comprehensive. For this background Chapter, the Committee has relied on data provided by the Parliamentary Budget Office, The Victorian Auditor General's Office, the Australian Bureau of Statistics and both Commonwealth and Victorian government departmental sources. The Committee considers that the use of these multiple sources provides a useful overview of the governance and fiscal landscape in which local government in Victoria operates.

2.2 Local government in Victoria

In Victoria, there are 79 local councils. These vary significantly in terms of geographical size, population and revenue. For instance, the smallest local council is the Borough of Queenscliffe, at just under 9 km,² and the largest is the Rural City of Mildura, which stretches 22,000 km².¹ The Borough of Queenscliffe also has the smallest population, with approximately 3,200 people, while the council with the largest population is the City of Casey, with over 390,000 people.² The revenue of different councils also varies widely. In 2022–23, the Borough of Queenscliffe had a total recurrent revenue of just under \$12 million, while the City of Melbourne collected over \$560 million, a 46-fold difference.³

1 Australian Bureau of Statistics, *Australian Statistical Geography Standard (ASGS): Edition 3 – Non-ABS Structures, Local Government Areas*, July 2023.

2 Australian Bureau of Statistics, *Estimated Resident Population by Local Government Area*, June 2023.

3 Victorian Auditor-General's Office, *Results of 2022–23 Audits: Local Government*, 7 March 2023.

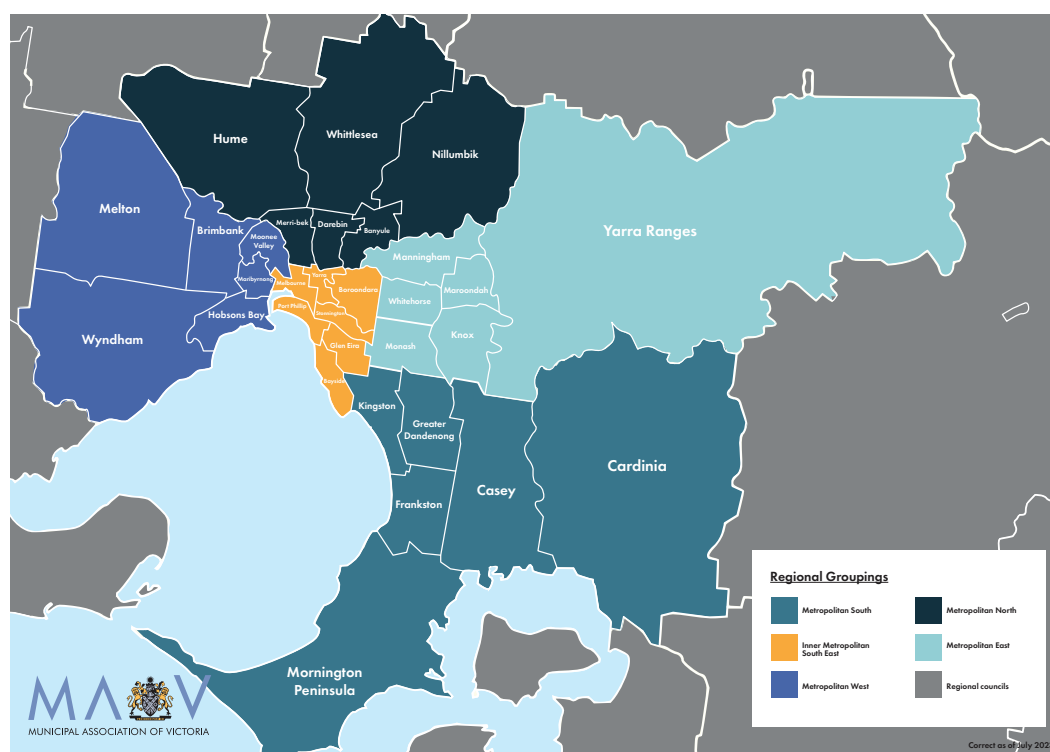
Local Government Victoria classifies councils into five groups:

- metropolitan
- interface
- regional city
- large shire; and
- small shire.

Over 75% of Victoria's population lives within the metropolitan and interface councils.⁴

Figures 2.1 and 2.2 below shows the distribution of metropolitan and regional councils and the regions that they are grouped in.

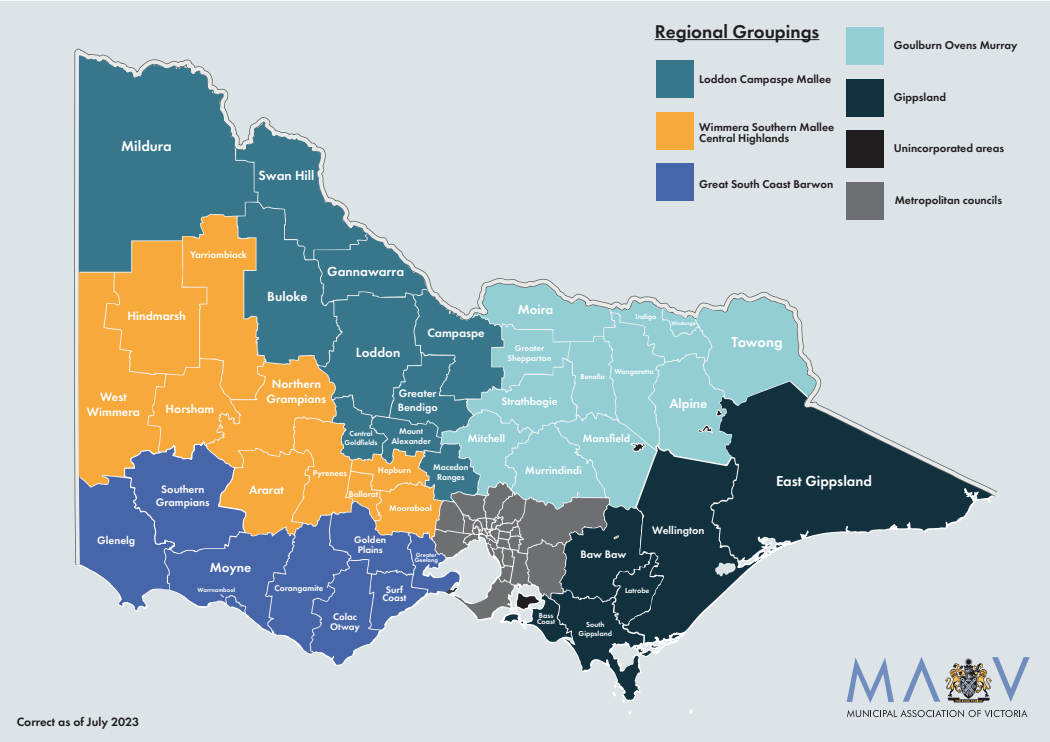
Figure 2.1 Metropolitan and interface councils in Melbourne



Source: Municipal Association of Victoria, Victorian Councils Map.

⁴ Australian Bureau of Statistics, *Estimated Resident Population by Local Government Area*, June 2023.

Figure 2.2 Regional city, large and small shire councils in Victoria



Source: Municipal Association of Victoria, Victorian Councils Map.

Figure 2.3 provides the statistics for councils, land area, population, and population density numbers across the five classification types. As discussed later in this report, the geographic size of a local council and its population are important factors in its financial viability.

Different council groups and their financial characteristics are discussed in Section 2.4.

Figure 2.3 Council groups and their characteristics

Type	Number of councils	Total area (km2)	Total population	Population density (people/km2)
Metropolitan	22	1,453.2	3,167,135	2,179
Interface	9	7,379.6	1,949,221	264
Regional city	10	39,382.2	860,463	22
Large shire	19	93,333.5	643,529	7
Small shire	19	85,664.4	194,140	2

Source: Parliamentary Budget Office, *Submission 107*, p. 9.

2.3 Governance arrangements

Local Councils are not mentioned in the Commonwealth Constitution. The Victorian Constitution recognises local government as ‘a distinct and essential tier of government consisting of democratically elected Councils having the functions and

powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district'.⁵

The Victorian Parliament provides for the establishment of councils and enables them to carry out their responsibilities through the Local Government Act 2020 (Vic) and the parts of the Local Government Act 1989 that remain in force. These acts:

- specify the purpose of councils- to provide good governance in its district for the benefit of its community⁶
- require that a council consists of democratically elected councillors⁷
- define the roles and responsibilities of the elected council and council staff⁸
- give powers to councils – including the ability to make local laws⁹ and levy rates; and¹⁰
- outline governance and decision-making requirements- including budgets and financial plans.¹¹

2.3.1 The Minister for Local Government and Local Government Victoria

The Minister for Local Government oversees the system of local government in Victoria. Local Government Victoria, which is part of the Victorian Department of Government Services, is the agency that supports the Minister. Its functions include:

- providing advice and publishing guidance for councils¹²
- administering recurrent and capital funding to councils from the Victorian Government; and
- providing administrative and policy support to the Victorian Local Government Grants Commission.¹³

Local Government Victoria collects information about council performance as part of the Local Government Performance Reporting Framework.¹⁴ The framework measures council performance in 59 service areas and ensures that councils measure and

⁵ *Constitution Act 1975* (Vic), s. 74A(1).

⁶ *Local Government Act 2020* (Vic), s. 8.

⁷ *Local Government Act 2020* (Vic), s. 12.

⁸ *Local Government Act 2020* (Vic), pt. 2.

⁹ *Local Government Act 2020* (Vic), s. 71.

¹⁰ *Local Government Act 1989* (Vic), pt. 8.

¹¹ *Local Government Act 2020* (Vic), pt. 3–4.

¹² Department of Government Services Victoria, *Sector Guidance: Planning and Reporting*, <<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>>.

¹³ Department of Government Services Victoria, *What We Do: Local Government Victoria*, <<https://www.localgovernment.vic.gov.au/what-we-do/local-government-victoria>>.

¹⁴ Department of Government Services Victoria, *Sector Guidance: Planning and Reporting*, <<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>>.

report on their performance to promote transparency and accountability. The data is made accessible to the public on the Know Your Council website, where an interactive dashboard allows the comparison of performance indicators between councils.¹⁵

2.3.2 The Victorian Local Government Grants Commission

The Local Government Grants Commission was established by the *Victorian Local Government Grants Commission Act 1976*.¹⁶ The Commission's primary function is to provide the Commonwealth Government with recommendations on distributing financial assistance grants to Victorian councils.¹⁷ The revenue that councils receive from the Commonwealth Government is discussed in Chapter 5.

2.3.3 The Municipal Association of Victoria

The Municipal Association of Victoria (MAV) is established by the *Municipal Association Act 1907*. It is the peak body representing councils in Victoria. Its roles include advocating for the sector, and providing advice and business services, such as insurance and procurement.¹⁸ Additionally, it negotiates and signs partnership agreements in which local government shares service responsibilities with the Victorian Government.

The Victorian Government and the MAV signed the Victorian State-Local Government Agreement in 2014.¹⁹ As part of this agreement, the Victorian Government committed to consulting councils when planning new primary legislation or new or revised regulations that the government intends councils to enforce. Under the agreement, the Victorian Government should consider the impact of this work, including any cost and resource impacts on councils. This is discussed further in Chapter 6.

2.3.4 Council responsibilities

Legislated responsibilities

Council responsibilities, which include managing assets and delivering services, are governed by more than 120 pieces of legislation. For example:

- The *Local Government Act 1989* gives councils control and management of local roads,²⁰ sewers and drains.²¹

¹⁵ State Government of Victoria, *Know Your Council Comparison Dashboard*, <<https://www.vic.gov.au/know-your-council-comparison-dashboard>>.

¹⁶ *Victorian Local Government Grants Commission Act 1976* (Vic), s. 3(1).

¹⁷ *Victorian Local Government Grants Commission Act 1976* (Vic), s. 12.

¹⁸ *Municipal Association Act 1907* (Vic), s. 2.

¹⁹ Department of Government Services Victoria, *Victorian State-Local Government Agreement*, <<https://www.localgovernment.vic.gov.au/our-partnerships/victorian-state-local-government-agreement>>.

²⁰ *Local Government Act 1989* (Vic), s. 206.

²¹ *Local Government Act 1989* (Vic), s. 298.

- The *Planning and Environment Act 1987* establishes councils as the planning authority for planning schemes in force in their municipality.²²
- The *Emergency Management Act 2013* requires councils to establish a Municipal Emergency Management Planning Committee to prepare local emergency management plans and facilitate community emergency preparedness activity.²³
- The *Public Health and Wellbeing Act 2008* requires councils to develop and enforce public health policies and programs locally, coordinate immunisation services for children and support public health planning.²⁴

Local councils share some service delivery responsibilities with the Victorian Government. Some of these services receive funding from the Victorian Government, while other responsibilities are delegated under legislation without funding.

The MAV has signed several partnership and service agreements that clarify these responsibilities.²⁵

However, the Victorian Government has not fulfilled the agreed funding for several of these commitments, leaving local governments to bear the burden of this funding shortfall. This will be discussed in detail in Chapter 6.

Other responsibilities

Under the *Local Government Act 2020*, councils must prepare and adopt a council plan every four years.²⁶ These plans outline council initiatives and priorities for services, infrastructure and amenities. Under the Act, councils are also required to prepare financial plans and asset plans.²⁷

In addition to their legislated responsibilities, councils may choose to provide additional services. When planning for services, councils must also engage with the local community to get feedback about what services they want to see provided.²⁸

This means that many councils deliver services that are not legislatively required but are expected by the community. This includes libraries, kindergartens, aged care, and disability support services. Some are unique to their location. For example, Mildura Rural City Council owns Mildura Airport and manages its associated services. Other councils may be the provider of last resort due to lack of local alternatives.

²² *Planning and Environment Act 1987* (Vic), s. 8A(1).

²³ *Emergency Management Act 2013*, s. 59.

²⁴ *Public Health and Wellbeing Act 2008* (Vic), s. 24.

²⁵ Municipal Association of Victoria, *Partnership Agreements*, <<https://www.mav.asn.au/news-resources/publications/partnership-agreements>>.

²⁶ *Local Government Act 2020* (Vic), s. 90.

²⁷ *Local Government Act 2020* (Vic), ss. 90–93.

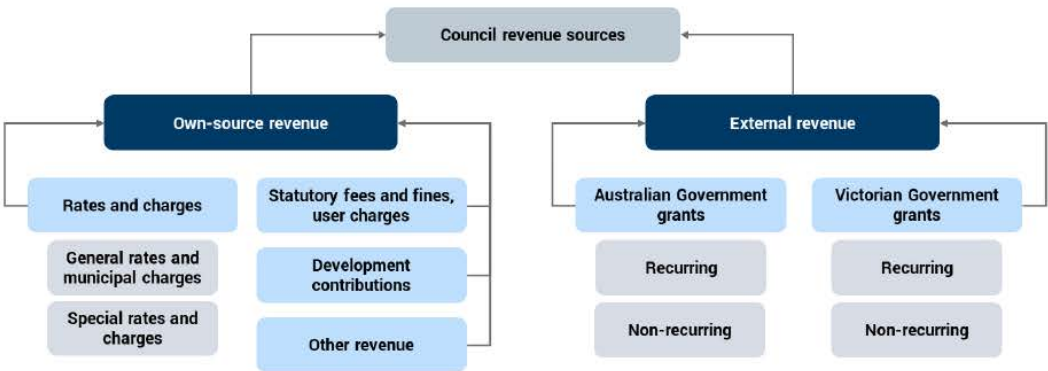
²⁸ *Local Government Act 2020* (Vic), s. 55.

2.4 Sources of council revenue

In 2022–23, Victorian councils received \$13.636 billion through a mix of revenue that they raised themselves (own-source revenue) and transfers from other levels of government (external revenue).²⁹

Figure 2.4 divides the sources of council revenue into own source revenue and external revenue.

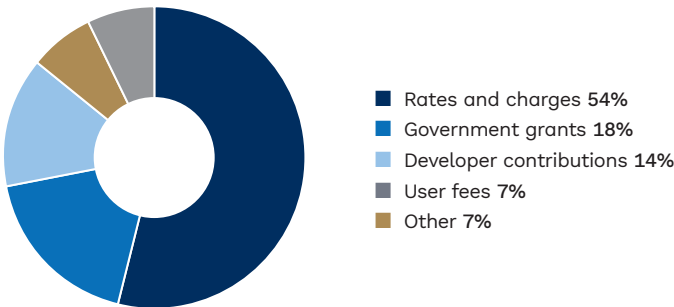
Figure 2.4 Sources of council revenue



Source: Parliamentary Budget Office, *Submission 107*, p. 19.

Rates and government grants are councils’ primary revenue sources. Councils may also raise funds by charging for the use of council facilities such as leisure and aquatic centres. Other revenue sources include borrowings, fines, asset sales, and interest earned on investments.

Figure 2.5 Breakdown of council revenue and income by category, 2022–23



Source: Victorian Auditor General’s Office, *Results of 2022–23 Audits: Local Government*, dashboard data, <<https://www.audit.vic.gov.au/report/results-2022-23-audits-local-government>> accessed 7 March 2023.

According to the Parliamentary Budget Office, since 2016–17, total revenue has grown by an average of 4.6% per year and reached \$13.9 billion in 2022–23. This contrasts

29 VAGO, *Results of 2022–23 Audits: Local Government*, <<https://www.audit.vic.gov.au/report/results-2022-23-audits-local-government>> accessed 7 March 2023.

with the 6.4% growth of total expenditure over the same period.³⁰ The trends in council revenue and expenditure are covered in detail in Chapter 3.

2.4.1 External revenue

The second largest source of council revenue is grants provided by the Victorian and Commonwealth governments. These grants can be:

- recurring or one-off
- tied or untied — differing by the discretion councils have over the use of the funds; or
- competitive or non-competitive — councils either apply or governments nominate them to access funds.

Grant programs include:

- the Commonwealth Government's Financial Assistance Grant program
- Commonwealth capital grant programs, such as the Roads to Recovery program
- state operational grant programs, for services such as libraries and maternal and child health services. (See Chapter 6, which discussed operational grants in the context of cost shifting)
- state capital grant programs, such as the Growing Suburbs Fund; and
- cost sharing programs, such as the Disaster Recovery Financial Assistance program.

Grant funding is discussed further in Chapter 5.

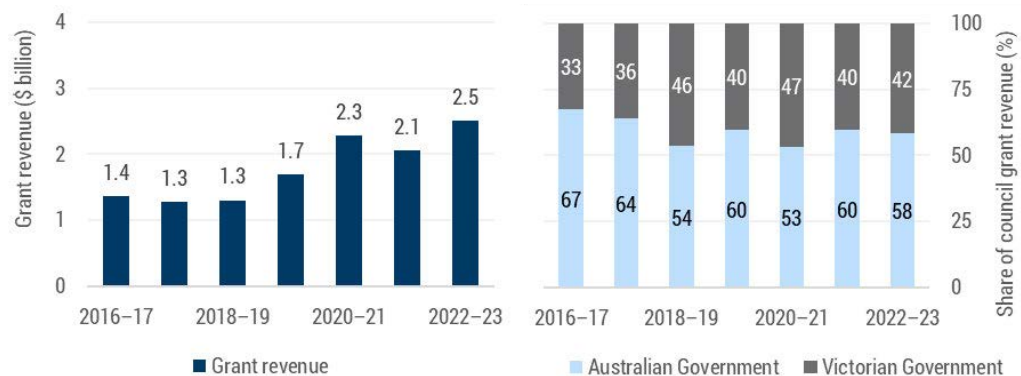
Since 2016–17, grant revenue has grown from \$1.4 billion to \$2.5 billion in 2022–23. This represents an annual average growth rate of 10.8% per year. However, growth has not been steady across the period.³¹

Figure 2.6 shows the change in grant revenue from 2016–2023 and the relative share that each constituent revenue source contributes.

³⁰ Parliamentary Budget Office, *Submission 107*, pp. 1–2.

³¹ Parliamentary Budget Office, *Submission 107*, p. 20.

Figure 2.6 Total council grant revenue and share of grant revenue source, 2016–17 to 2022–23



Source: Parliamentary Budget Office, *Submission 107*, p. 23.

FINDING 1: The costs of infrastructure and service delivery have risen at a pace that outstrips the growth in grant funding.

2.4.2 Own source revenue

Rates and charges

Rates are an annual property-based tax set out in the *Local Government Act 1989* (Vic). They may be split into different charges outlined below.

General rates

General rates are the largest charge issued by councils to landowners. They are calculated based on the value of property. Every two years, councils are required to value all rateable land in their municipality using one of three methods:

- site value - the value of the land only
- net annual value - the annual rental value of the property net of fixed costs; or
- capital improved value - the value of the land and all fixed improvements.³²

Councils also determine the cost required to deliver their intended functions. This amount is then divided by the total value of rateable property within the council boundaries to find the *rate in the dollar*. The rate in the dollar is then multiplied by the market value of the property to yield the general rates charge.³³

³² *Valuation of Land Act 1960* (Vic), s. 11.

³³ *Valuation of Land Act 1960* (Vic), s. 11.

There are often significant discrepancies in the rate in the dollar between metropolitan and shire councils.³⁴ As an example, in the 2023/24 year, the rate in the dollar for the two very disparate councils were:

- **Stonnington City Council** (Metropolitan) – 0.0010400
- **Swan Hill Rural City Council** (Large Shire) – 0.00440782.³⁵

Municipal charge

A council may declare a municipal charge to cover some of the administrative costs of the council. This must not exceed 20% of the council's total revenue obtained through general rates and the municipal charge.³⁶

Service charges/rates

A council may declare a service charge for waste, recycling, resource recovery services, and any other prescribed service.³⁷

Special charges/rates

These are charged to ratepayers for specific services or purposes (i.e. investing in footpaths).

Rate capping

The Local Government Rate Cap was legislated in Victoria in 2016.³⁸ The cap limits the overall increase in rates and municipal charges. The Minister for Local Government sets the rate cap in December each year for the following financial year.

In 2024–25, the cap is 2.75%. In practice, this means that a council that raises \$10.0 million in 2023–24 from rates can only raise \$10.28 million in 2024–25. However, it should be noted that the cap only applies to General rates and is calculated on the overall rates base, not individual property rates.

The average rate cap between 2016–17 and 2024–25 was 2.3%.³⁹ In comparison, Melbourne's CPI averaged 3.0% over the same period, meaning the change in rate revenue has not kept up with general inflation, particularly in the last few years with higher-than-expected inflation.

Councils can apply for a higher cap through the Essential Services Commission, which monitors the rate cap. Between 2016–17 and 2019–20, 17 councils applied for

³⁴ *Local Government Act 1989* (Vic), s. 163.

³⁵ City of Stonnington, *Budget 2023–24*, 28 June 2023; Swan Hill Rural City Council, *Budget 2023/24*, 13 June 2023.

³⁶ *Local Government Act 1989* (Vic), s. 159.

³⁷ *Local Government Act 1989* (Vic), s. 162.

³⁸ *Local Government Act 1989* (Vic), pt. 8A.

³⁹ Essential Services Commission, *Annual Council Rate Caps*, <<https://www.esc.vic.gov.au/local-government/annual-council-rate-caps>>.

a variation to the rate cap, and 13 received full or partial approval for a higher cap. No higher rate caps are currently in place.⁴⁰

The issue of rate capping is a significant one for local councils and was a major focus of a number of submissions and public hearings during this Inquiry. Detailed discussion of the concerns of councils is covered in Chapters 3 and 4 of this report.

Prescribed fees

Councils may set pricing for some of their services and use of assets, such as community hall or sporting field hire. To do so, they must consider community expectations, how to allocate costs equitably, and the costs of maintaining assets.

Victorian Government legislation and regulations prescribe fees for other services. For example, many planning services, including applications for building permits and subdivisions, attract fees. These fees are set in fee units, which the Treasurer indexes yearly. This means councils do not fully control how much they recover from services where fee units apply.

In recent years, wages have grown faster than fee units, averaging 2.8% annually between 2017–18 and 2022–23, compared to an average 2.0% annual change in fee units. This suggests that the cost of administering services is increasing faster than the revenue received for services set in fee units. This issue is discussed further in Chapter 6 on cost shifting.

Development contributions

The development of new housing puts added pressure on current infrastructure, such as roads and schools. Acknowledging this, the Victorian Government and local councils gather contributions from developers to benefit the local community.

These contributions may take the form of cash, land, or the construction of public infrastructure, known as works-in-kind. For instance, a developer might allocate a portion of land for a park or build a kindergarten facility to fulfil their responsibilities.

Councils can collect contributions through:

- voluntary agreements negotiated with developers; and⁴¹
- development contributions or public open space contributions, set out in planning schemes.⁴²

Developer contributions have grown an average rate of 12.7% per year, rising from 7.0% of own-source revenue in 2016–17 to 10.8% by 2022–23. Developer contributions and

⁴⁰ Essential Services Commission, *Recent Higher Rate Cap Applications*, <<https://www.esc.vic.gov.au/local-government/higher-rate-cap-applications/recent-higher-cap-applications>>.

⁴¹ *Planning and Environment Act 1987* (Vic), s. 173.

⁴² *Victorian Planning Provisions*, cl. 53.01.

reimbursements can be quite volatile, given their dependence on larger, longer-term projects. Since 2016–17, this volatility has been evident, with annual growth rates ranging between 10.3% and 25.0%.⁴³

The Committee heard evidence from councils including Moonee Valley City Council about the Victorian Government's announcement of 10 activity centres in suburbs that are earmarked for development. The activity centres will be based in Broadmeadows, Camberwell, Chadstone, Epping, Frankston, Moorabbin, Niddrie, North Essendon, Preston and Ringwood, will include a walkable 800 metre catchment area that surrounds the commercial core of each precinct.

Moonee Valley City Council noted an anticipated population increase along with the activity centres. Ms Sui noted the implications in relation to needs for additional open space to accommodate increased population density:

The one thing we have been advocating for very strongly with our state government colleagues is our infrastructure needs to support increased population – connected transport and also it means more bus/tram connecting with the train network and importantly open space. Through COVID particularly, everyone appreciates the value of open space for the wellbeing of the community.

I do not see necessarily that there is no potential for open space. I think that is a thing we need to work through, how we enable that to happen. I would certainly like to see support for a review of the open space levy, because what we have in place needs council to work together with the state government. Ours is probably at least 10 years old. Our open space levy needs to be reviewed with the new target and whether that is still appropriate. It is the same with the infrastructure levy, the Development Contribution Plan (DCP).⁴⁴

In relation to consultation and planning for additional open space, Ms Sui said:

But certainly need a more detailed analysis, particularly for the activity centres. What does the open space requirement look like? Moonee Valley City Council, like many councils, already has an open space strategy. We do need to have more deep conversation and research about what does that mean and in which pocket. Certainly for an inner-city council one of the main issues is where the money will come from. How is that working with the money for housing, and what other different opportunities are there?⁴⁵

Such consultation should include consideration of a sewage plan.

FINDING 2: No consultation occurred with local government on the catchment areas.

⁴³ Department of Government Services Victoria, *Consultation & Council Data*, <<https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission/consultation-and-operations>>.

⁴⁴ Helen Sui, CEO, Moonee Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 25.

⁴⁵ Helen Sui, CEO, Moonee Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 25.

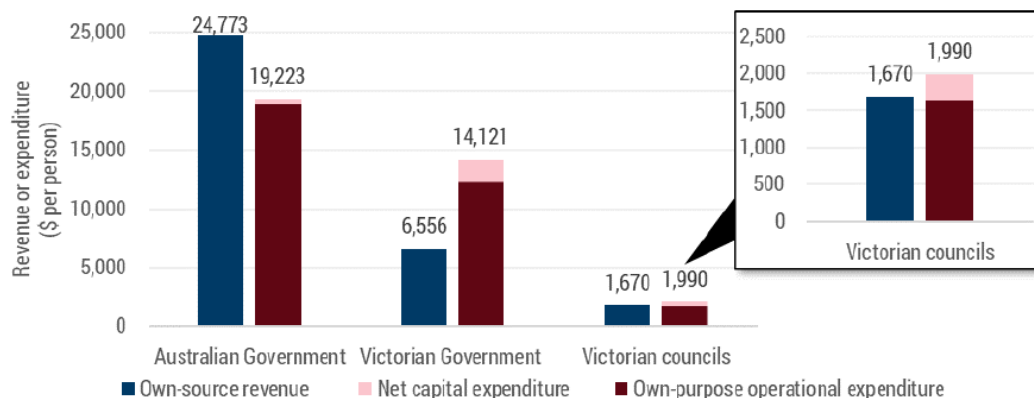
2.4.3 Vertical fiscal imbalance

In Australia, the Commonwealth Government, state governments and councils have different expenditure responsibilities and revenue-raising abilities. The vertical fiscal imbalance is the difference between their ability to generate enough own-source revenue to fund their expenditure responsibilities.

The Commonwealth Government has by far the largest sources of revenue from taxes on personal income, company income, and on goods and services (i.e. the GST). State and territory governments generate own-source revenue from taxes, fees and charges, the sale of goods and services, interest and other income. For Victoria, the largest sources of own-source revenue are payroll tax, land tax and stamp duty.⁴⁶

Figure 2.7 compares the own-source revenue against net capital expenditure between the three levels of government.

Figure 2.7 Vertical fiscal imbalance per person, 2022–23



Source: Parliamentary Budget Office, *Submission 107*, p. 28.

In proportion to their revenue, councils are required to manage a far higher proportion of infrastructure. The MAV told the Committee ‘for every dollar of revenue that Victorian councils collect, they manage \$10 of physical assets, like parks, roads and kindergartens. For the Victorian government this figure is \$4, and for the Commonwealth government it is 40 cents.’⁴⁷

This issue is discussed in Chapter 3 regarding the financial sustainability of councils and in Chapter 5 on grants.

⁴⁶ Australian Bureau of Statistics, *Government Finance Statistics, Annual, 2022–23 financial year*, <<https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/latest-release>>.

⁴⁷ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 14.

As noted in Section 2.2. There are five different council groups in Victoria:

- metropolitan,
- interface,
- regional city,
- large shire and
- small shire.

Each council group has different characteristics relating to their geographic size, population and rate base. These differences produce large variations in revenue, costs, and the amount of grant funding they receive, as outlined in the following sections.

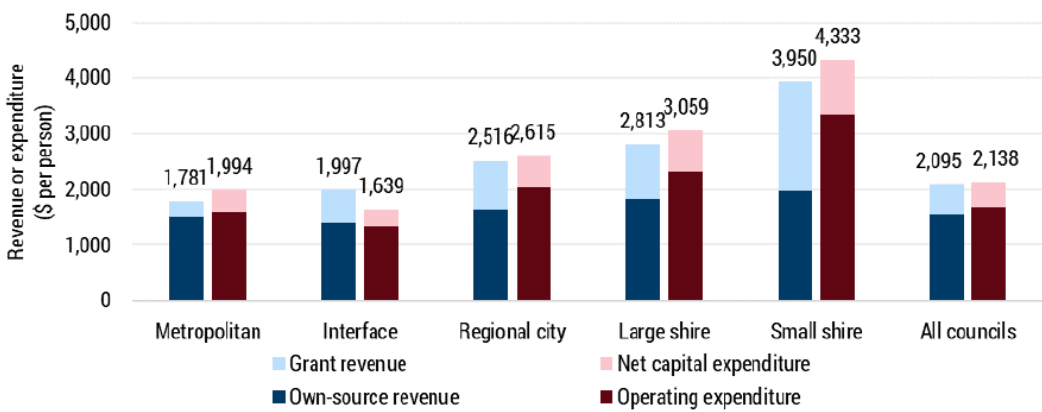
2.4.4 Reliance on Commonwealth and state government grants

Victorian councils rely on grants from other levels of government to fund shortfalls in their own-source revenue. Based on VLGGC data, in 2022–23:

- Metropolitan councils received the smallest proportion of their total revenue in Commonwealth and state government grants (12.5%).
- small shire councils received the largest proportion of their total revenue in Commonwealth and state government grants (41.5%).⁴⁸

Figure 2.8 below illustrates the differences in own-source revenue and total expenditure of each of the five council groups.

Figure 2.8 Total revenue and expenditure by council group, 2022–23



Source: Parliamentary Budget Office, *Submission 107*, p. 33

48 Department of Government Services, *Consultation & Council Data*, <<https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission/consultation-and-operations>>.

2.4.5 Differences in revenue-raising capacity across councils

All councils levy rates on properties, but metropolitan, high socio-economic areas tend to have higher property values than regional areas, and therefore a larger revenue base.

Regional councils generally have a smaller revenue base than metropolitan councils, reflecting lower average property values. They, therefore, have a lower capacity to raise revenue.

However, as regional councils generally have higher per-capita expenditure requirements, they may set higher rates than metropolitan councils. Despite these high rates, they still rely more on Commonwealth and state government grants.

Metropolitan councils collectively reported the highest revenue, \$5,640.0 million, in 2022–23. This is more than the total revenue for regional city, large shire, and small shire councils combined. However, metropolitan councils also account for 46.5% of Victoria's population compared to 24.9% for the combined regional city, large shire, and small shire councils.

Rates largely drive councils' potential to raise own-source revenue. After determining their rate funding needs, they set a rate in the dollar accordingly, subject to Victorian Government restrictions.

In setting revenue targets, councils face two limiting factors that reflect local circumstances, specifically the council:

- rate base – the value of properties in the council; and
- socio-economic status – the well-being of council residents, their need for services and their capacity to provide council revenue.

Chapter 3

The financial sustainability of local councils in Victoria

3.1 Overview

Many of the councils the Committee spoke to during this inquiry reported that their financial position has been in decline since the introduction of rate capping in 2016–17. This has threatened their long-term financial sustainability and has put at risk their ability to maintain infrastructure and provide services to the community.

This Chapter gives an overview of council revenue and expenditure, showing that expenditure has been rising faster than revenue in recent years. This is due to constrained revenue growth, coupled with fast rising expenses, as well as cost shifting from the State Government. Some of the particular cost pressures facing councils are outlined in this Chapter. The cost pressures that relate to cost shifting are discussed in Chapter 6. One result of increasing cost pressures is that councils are beginning to scale back services or neglect asset renewal.

Some stakeholders, including Government regulators, assessed the present financial situation of councils to be sound overall. However, the Committee heard that there is no definition of what constitutes financial sustainability amongst regulators. A problem must be defined before it can be solved. While not all councils are currently in financial trouble, they overwhelmingly expressed concern about the trend of their finances. They urged action now before their long-term financial sustainability comes under serious threat.

Box 3.1 Inconsistencies in financial information in key sources

The following sections use financial information from three key sources, the Victorian Auditor General's Office, the Parliamentary Budget Office and the Essential Services Commission. However, the figures from each of these stakeholders differs because of their sources, methodologies and the period they cover.

The Victorian Auditor General's Office produces an annual report that gives an overview of the results of its audits of the local government sector. These use data from the financial reports produced by councils as part of their annual reporting process.

The submission from the Parliamentary Budget Office relies on data collected from the ABS and in some cases the Victorian Local Government Grants Commission.

The Essential Services Commission produces a periodic report on the outcomes of rate capping. The report uses sources from the ABS, council audits and the Local Government Grants Commission. However, their most recent report only includes data up until 2021–22.

An example of the difference in figures provided by the sources can be seen with council revenue. According to the Victorian Auditor General's Office in 2022–23, local councils in Victoria received \$13.6b in revenue. However, the Parliamentary Budget Office submission states that for 2022–23 council revenue was \$13.9b.

The Committee has been careful to highlight any inconsistencies as they arise and to draw appropriate conclusions from the data.

Source: Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 11; Parliamentary Budget Office, *Submission 107*, pp. 2, 34.

FINDING 3: Local councils are facing increased budget pressures due to cost shifting by state and federal governments. Without substantial changes, the financial sustainability of council operations is at risk, with some services already being reduced or discontinued entirely.

FINDING 4: The roles and core service responsibilities of local government in Victoria lack clear definition, creating a burden on councils to determine what is expected of them. This disproportionately impacts regional and rural councils, which face disadvantages due to limited revenue-raising capacity and the need to provide additional services arising from the geographic size of the municipality and service gaps within their communities.

RECOMMENDATION 1: That the Committee send a request to the Victorian Auditor-General to investigate and report on the financial impacts of cost-shifting from state and federal governments onto all Victorian councils.

The submission from Mildura city council said:

While each local government would have a different profile of ‘core services’, the impact of the rate cap, dependency on grant funding and cost shifting has had a detrimental impact on the capacity of MRCC to maintain levels of service. Decisions have been made to prioritise services, with constraints placed upon services, and will continue to be made if the deterioration in financial sustainability of local government is not addressed.¹

Cr Mary-Ann Brown, Chair of Rural Councils Victoria said:

As I said, you know, many councils were providing aged care services and have exited that area, but we have got cases where councils are providing child care. Most councils are doing school crossings. I would say those are things that really probably should not be local governments responsibility. And then, as I said, you have got the issue of Crown land reserves, and those committees, who are all volunteers, are looking after those areas of the state for the benefit of the state as a whole with very little support from the state.²

3.2 Trends in council revenue

Council revenue is growing in Victoria, however, the ability of councils to influence the rate of revenue growth is constrained by rate capping and the amount of grant funding provided to councils. Overwhelmingly, councils are worried that revenue is not growing as fast as expenses. A discussion of what constitutes financial sustainability follows in Section 3.7.

Chapter 2 gives an overview of the sources of council revenue and what proportion of revenue councils receive from each source. This section provides an analysis of sector revenue trends since the introduction of rate capping.

The Parliamentary Budget Office reported ‘since 2016–17, total revenue has grown by an average of 4.6% per year and reached \$13.9 billion in 2022–23.’³

While the Essential Service Commission reported that revenue since 2016–17 and 2021–22 grew at a rate of 2%. It noted that this rate of growth is slower than the three years before rate capping was introduced, when revenue grew at 3.3%.⁴

¹ Mildura Rural City Council, *Submission 72*, p. 4.

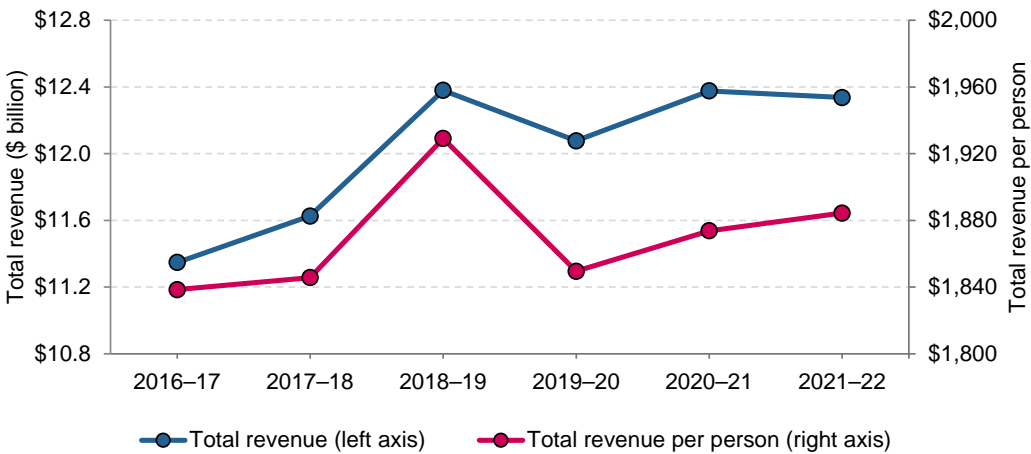
² Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 6.

³ Parliamentary Budget Office, *Submission 107*, p. 20.

⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 17.

The Essential Services Commission’s *Outcomes of Rate Capping* report gives a detailed breakdown of trends in council revenue over the period. Figure 3.1 from the report shows the total and per capita revenue for the sector between the introduction of rate capping in 2016–17 and 2021–22. The Commission notes a contraction in revenue in the 2019–20 financial year, and subsequent years, due to the impact of the COVID-19 Pandemic.⁵

Figure 3.1 Total revenue and total revenue per person for the local government sector as a whole between 2016–17 and 2021–22



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 18.

The proportion of council revenue derived from rates and charges remains the biggest source of revenue for all councils. Although, as discussed in Chapter 2, metropolitan councils receive a higher proportion of their income from rates than small shire councils.

According to the Essential Services Commission, the growth in rates and charges revenue on a per capita basis between 2016–17 and 2021–22 was relatively small (0.8%). In the three years before rate capping, the per-capita growth in rates and charges for the sector was 2.6%.⁶

The adequacy of the rate cap for councils will be discussed further in Chapter 4.

The biggest sources of growth in revenue per-capita were in developer contributions and grant funding, although this growth comes from a low base.⁷ As discussed in Chapter 2, interface councils with growing suburbs collect a larger proportion of revenue from developer contributions.

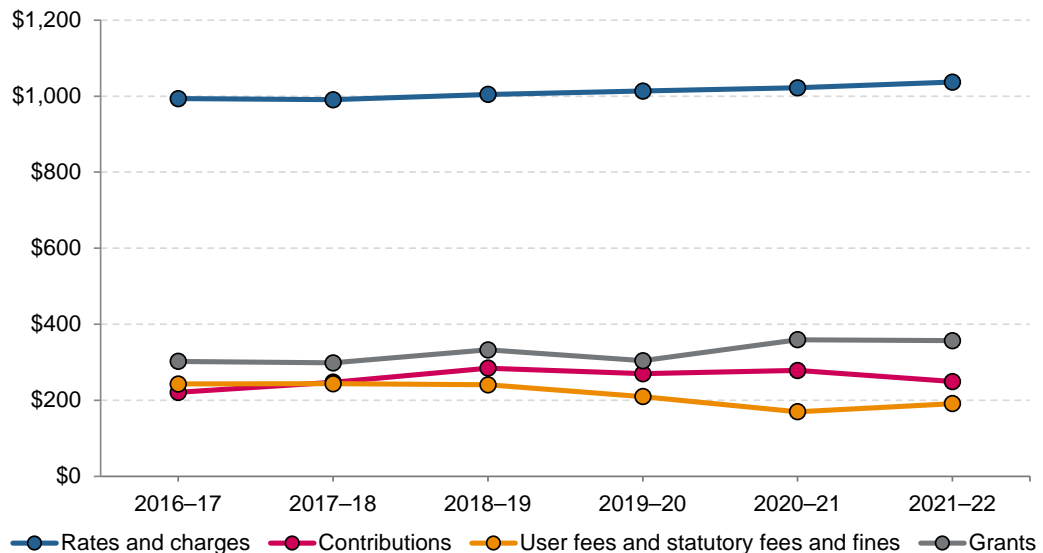
⁵ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 17.

⁶ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 19.

⁷ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 21.

Figure 3.2 from the Essential Service Commissions' *Outcomes of Rate Capping* report provides an overview of the growth in each revenue stream between 2016–17 and 2021–22.

Figure 3.2 Revenue per person in the local government sector between 2016–17 and 2021–22, by source (inflation adjusted)



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 19.

3.3 Limited options to grow revenue

The Committee was informed that councils have very few avenues to raise revenue. This is in contrast to state and Commonwealth governments who are able to raise taxes or charges in line with economic or population growth, and the expectations of the community.

This was outlined by Cr Jude Dwight, Mayor of Knox City Council, who said:

Both the federal government and state government are able to earn uncapped taxation revenue. This obviously increases with economic and population growth and supports better living standards. The local government sector, though, is reliant on insufficient rate revenue and the federal assistant grants, which have not increased in real terms on a per capita basis since 1995. It is important to note that the main income stream for councils – i.e., rates – is set by another level of government – so it is set by state government. This is only true of local government.⁸

Indigo Shire Council noted that Victorian councils are unable to evolve or adjust to the changing needs of their community.⁹

⁸ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 38.

⁹ Indigo Shire Council, *Submission 12*, p. 2.

The local government sector were keen to point out that while the council rates increases have slowed, the levels of tax revenue collected by state and commonwealth governments have increased. FinPro's submission said:

Commonwealth Government taxation revenue (excluding GST) has increased by 65% over the last 10 years and 31% in the last 5 years, while Victorian Government taxation revenue for the states has increased by 98% over the last 10 years and 34% over the last 5 years. By comparison, local government taxation revenue (municipal rates) has only increased by 54% over the last 10 years and 16% over the last 5 years.¹⁰

Bradley Thomas, President, Local Government Finance Professionals (FinPro) during a public hearing said:

FinPro acknowledges that rates are a really substantial part of local government finances – 50 to 60 per cent, depending probably on the different council groups. We acknowledge the state government's policy around the rate cap program, and we are not advocating for the removal in full of a rate cap. What we are recommending, though, is that there needs to be a review of the indicators used, the criteria that have been in place – there needs to be a review of how the rate cap system is actually working. We are calling on a local government cost index rather than the use of CPI based on projections. Effectively over the past period of time often the DTF possible CPI rates have been used. This is not a true reflection of the costs being incurred by local government and certainly does not look at what has happened over the last couple of years going forward. We think the rate cap system needs to be looked at in terms of: how is it working for all 79 councils, for all different cohorts of councils, and particularly around how has it been effective and efficient since its introduction? There is a really vast difference in the value of an average rate right across all 79 councils. As we noted, I think it is important in terms of consideration of that local government cost index taking into account our constructions and our sector.¹¹

The mismatch between the amount of revenue collected by local government and the functions it carries out is discussed in Chapter 5 on grants.

The Municipal Association of Victoria (MAV) noted that councils took a proactive role during the COVID-19 Pandemic in supporting their communities, which consumed significant resources. However, councils do not have the same ability of other levels of government to increase their revenue to repair their balance sheets from this period.¹²

One of the options open to councils to raise revenue is to increase fees and user charges. However, the Committee heard that many of these fees are set by the State Government and cannot be raised.¹³ The Parliamentary Budget Office noted that in recent years wages have grown faster than government mandated fees for services such as planning. This suggests that 'the cost of administering services is increasing

¹⁰ FinPro, *Submission 11c*, p. 19.

¹¹ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 39.

¹² Municipal Association of Victoria (MAV), *Submission 105*, p. 21.

¹³ Bass Coast Shire Council, *Submission 16*, p. 2.

faster than the revenue received for services set in fee units.¹⁴ The Essential Services Commission also noted that since rate capping was introduced, revenue from fees has fallen 3.6%.¹⁵

The inability of councils to set user fees is also discussed in Chapter 6 on cost shifting. However, the Committee notes that councils may introduce service fees, primarily to cover the cost of waste services. These fees are uncapped and can be raised to match changes in cost for councils. The Essential Services Commission noted that in 2021–22, these charges accounted for 12.3% of council revenue.¹⁶ The waste service charge is discussed in detail in Chapter 6.

The Committee was informed that some that larger councils were able to raise revenue through parking fines or fees for recreation facilities.¹⁷ For example, Moyne Shire council said:

Some councils who have a high volume of visitors can raise significant revenue from parking fees and fines, whilst others that operate significant recreation facilities can also generate a high return. However, most councils have more modest opportunities for revenue raising.¹⁸

Other councils, who may experience higher levels of disadvantage, were mindful that fees for services must be set at a level that is affordable for their communities:

Further, for a council such as Hume with areas of social and economic disadvantage, we must be cognisant of setting non-statutory fees and charges at a level that ensures accessibility for all our communities, regardless of their capacity to pay.¹⁹

Councils provide essential services to the community and are responsible for extensive infrastructure portfolios. It is a concern to the Committee that councils have very little flexibility to be able to adapt to meet the changing needs of their community or rising expenses.

However, there is one key method for councils to seek to increase their revenue, which will be discussed in the following section. This is through applying to the Essential Services Commission for a rate cap variation. However, the Committee heard that there were several barriers to doing so.

3.3.1 Issues with applying for rate cap variations

The rate cap variation mechanism described in Chapter 2, gives councils the ability to apply to the Essential Services Commission for a higher rate cap to increase their

¹⁴ Parliamentary Budget Office, *Submission 107*, p. 25.

¹⁵ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 28.

¹⁶ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 12.

¹⁷ For example see Shire of Buloke, *Submission 64*, p.4, and Baw Baw Shire Council, *Submission 71*, p. 23.

¹⁸ Moyne Shire Council, *Submission 39*, pp. 5–6.

¹⁹ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows 19 September 2024, *Transcript of evidence*, p. 50.

revenue. When applying for a higher cap, councils must provide the Essential Services Commission the following information:

- the proposed higher cap for each specified financial year
- the reasons why the council is seeking the higher cap
- how the views of ratepayers and the community have been considered in proposing the higher cap
- how the higher cap is an efficient use of council resources and represents value for money
- whether other funding options have been considered and why those options are not adequate; and
- that the assumptions and proposals in the application are consistent with the council's long term strategy and financial management policies.²⁰

Cr Dwight, Mayor of Knox City Council, told the Committee that these requirements are administratively burdensome and disincentivised councils from applying for higher rates:

The lack of submissions suggests that the higher rate cap application process is a significant burden on local government. It is administratively complex. It involves a substantial amount of work, diverting resources away from other council priorities, and the complexity of decision-making in the political environment, including the requirement for community consultation, actually acts as a deterrent for applying for a rate cap as opposed to a solution.²¹

Hindmarsh Shire Council also told the Committee that the rate cap variation process is 'challenging, and demands significant investment'.²² The Council was also concerned about the political implications of seeking a rate rise. It stated in its submission:

There is also community perception and backlash that needs to be considered as this can have ongoing impacts on the effectiveness of Council operations.²³

Glen Eira City Council's submission also noted that councils may be reluctant to seek a rate cap variation for fear of political repercussions as:

Councils are worried about community perception, backlash, or losing trust by appearing to deviate from what is normal in the sector. It is also a politically sensitive issue in a council election year.²⁴

Hindmarsh also had concerns about the ability of its residents to afford to pay higher rates, noting socio-economic disadvantage in its municipality. The Council believed any

²⁰ Essential Services Commission,

²¹ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 15.

²² Hindmarsh Shire Council, *Submission 38*, p. 3.

²³ Hindmarsh Shire Council, *Submission 38*, p.3.

²⁴ Glen Eira City Council, *Submission 29*, p. 11.

economic benefit for the Council must be balanced with the impact of higher rates on its residents.²⁵ This issue will be discussed in Chapter 4.

Because of these issues, the Committee was told that few councils applied for rate cap variations. Mary-Ann Brown, Rural Councils Victoria, explained that she was not aware of any councils that had undertaken the rate cap variation process:

It is a time-consuming process. It is probably a politically challenging process. There is no guarantee that you are going to get the outcome that you desire, and then you look at how much extra income that is going to generate and who is contributing to that income. I think that is why very few councils – I am not aware of a rural council that has actually undertaken that process.²⁶

However, Gerard Brody from the Essential Services Commission argued that the process for applying for a rate cap variation wasn't too burdensome because it required providing information that councils should be collecting anyway:

We do not think it should be that burdensome for councils. There is a process – we do not deny that – but many of the things that we ask them to include in their applications are things councils should be doing anyway, including their budgeting, their financial planning, their asset management plans and their engagement strategies. In fact some of those they are required to do already under local government legislation. So the additional work should not be that burdensome for them.²⁷

According to the Parliamentary Budget Office, between 2016–17 and 2019–20, 17 councils applied for a variation to the rate cap, and 13 councils received full or part approval for a higher cap.²⁸ No rate cap variations have been applied for since then.²⁹

Dean Hurlston, President of Council Watch, believed the reason that no councils had applied for a variation since 2019 was because they didn't need the funding badly enough:

The minister has made it clear that councils can also apply for funds outside of the rate cap. Why is it that since 2019 – despite it being difficult, we agree – not one council has applied for a rate cap? Is it that they do not want to do the work or that they do not need the money badly enough? This is a manufactured crisis.³⁰

The Committee acknowledges these concerns, however, the evidence presented to it by councils shows that there are a number of disincentives in applying for rate cap variations. It is telling that even though some councils report serious concerns about their financial sustainability, there have been no applications for rate cap variations for five years.

²⁵ Hindmarsh Shire Council, *Submission 38*, p. 3.

²⁶ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 59.

²⁷ Gerard Brody, Commissioner and Chairperson, Essential Services Commission, public hearing, Melbourne 8 October 2024, *Transcript of evidence*, p. 34.

²⁸ Parliamentary Budget Office, *Submission 107*, p. 26.

²⁹ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

³⁰ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

FINDING 5: There are several issues that disincentivise councils applying to the Essential Services Commission for a higher rate cap. These include:

- a burdensome administrative process to apply
- concerns about community backlash; and
- concerns about the capacity of residents to afford higher rates, particularly in large and small shire councils.

RECOMMENDATION 2: That the Victorian Government review the requirements that councils must meet in applying for a higher rate cap, with a view to making the process less administratively burdensome. Any streamlined application process should not impact the Essential Services Commission's assessment of the merits of the applications.

3.3.2 The use of finance

Borrowing is another option open to councils who need access to funds. The majority of councils the Committee engaged with were cautious about taking on loans. Cr Dwight, Mayor of Knox City Council, described borrowing as a risky option because of the limited ability to service loans:

Debt can provide temporary relief, but it is not a sustainable solution in face of ongoing financial challenges. A dependency on increasing debt levels while constraining revenue capability will only continue to erode the local government's financial sustainability.³¹

The Committee notes that the Victorian Government has made available Treasury Corporation of Victoria loans to councils at attractive interest rates. Local Government Victoria has said that the use of these loans may be a relatively cost-effective option, particularly in funding long-term infrastructure assets.³²

Mark Stoermer, Director of Corporate Services at Brimbank City Council, gave an example of the Council borrowing to fund a long-term asset, but expressed caution about the use of loans for other areas of council expenditure:

We often get criticised for lazy balance sheets in our sector and that perhaps we should take more advantage of borrowing. We do borrow at Brimbank, and we have done that for our leisure facilities that I mentioned because that is an intergenerational asset and it also returns a significant amount of revenue besides delivering a social benefit to the community. But again I would caution councils not to use borrowing to fund operations, because at some point you have to pay for that.³³

³¹ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 39.

³² Local Government Victoria (LGV), *Analysis of the 2022-23 adopted budgets of Victorian councils*, 2023, pp. 5, 38.

³³ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 4.

The appetite for Treasury Corporation of Victoria loans was mixed. Cr Dwight, Mayor of Knox City Council, said that even with an attractive interest rate, servicing debt on the loans was seen as risky and likely to impact service delivery.³⁴ While Derek Madden from Peri-Urban Councils Victoria said that councils experiencing growth may need access to loans. He said he would like to see borrowing thresholds to access treasury loans raised for growing councils so that they can deliver infrastructure quickly:

We are only allowed to borrow 60 per cent. In a previous life in a different council we took the borrowings up to 90 per cent and paid them back within four years on the basis of growth to get that infrastructure in. At this moment in time, if we were to go above 60 per cent, we would not be able to access the Treasury funding, and therefore we would end up paying higher rates of interest.³⁵

While councils rightly approach the use of loans with caution, there are opportunities for some councils to use debt to strategically to finance capital expenses for growing communities. While oversight is necessary, the Committee believes it may be appropriate to raise borrowing thresholds on Treasury Corporation of Victoria loans so that interface or other growth area councils can deliver the infrastructure their communities need in a timely manner.

FINDING 6: Victorian Treasury Corporation Loans should not replace adequate government funding and relying on these loans risks burdening councils with debt and impacts service delivery.

RECOMMENDATION 3: That the Victorian Government should provide councils with adequate funding for capital expenditure, rather than generating revenue through interest payments from financially strained councils.

RECOMMENDATION 4: That the Victorian Government act expeditiously and not delay funding for projects out of Growth Areas Infrastructure Contributions or development contributions due to the risk of escalating project costs.

3.4 Trends in council expenditure

Council expenditure has grown faster in recent years than the rate of revenue. According to the Victorian Auditor General's *Results of 2022–23 Audits: Local Government* report, the \$11.2 billion spent by councils in 2022–23 was a 9.3% increase from the previous year.³⁶ The Parliamentary Budget Office reported that since rate

³⁴ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 40.

³⁵ Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 24.

³⁶ Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 11.

capping was introduced in 2016–17, total council expenditure has grown by an average of 6.4% per year.³⁷ In comparison, total revenue since 2016–17 has grown on average at 4.6% per year.³⁸

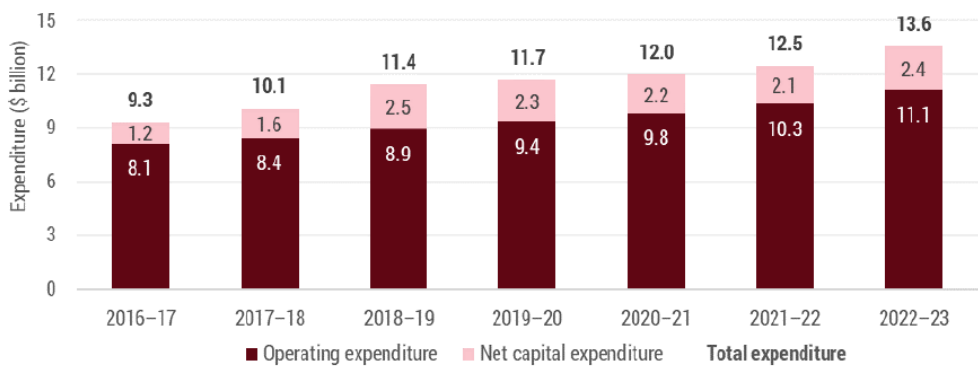
Council expenditure can be separated into two broad categories:

- **operating expenditure** – expenditure on services and day-to-day operations; and
- **capital expenditure** – expenditure on construction, renewal and upgrade of assets.³⁹

Sections 3.4.2 and 3.4.3 give an overview of what constitutes operating and capital expenditure, as well as how much is spent on each facet of operating and capital expenditure.

Figure 3.3 from the Parliamentary Budget Office shows the growth in total expenditure for all councils from 2016–17 to 2022–23.

Figure 3.3 Total council expenditure between 2016–17 and 2022–23



Source: Parliamentary Budget Office, *Submission 107*, p. 13.

The Essential Services Commission’s report stated that operating expenditure accounted for approximately 74% of council expenses over the period.⁴⁰ The types of operational expenses that grew included materials and services costs, and employee costs. A breakdown of council operating expenditure follows in Section 3.4.2.

The growth in capital expenditure was more uneven, varying from council to council and year to year.⁴¹ The Essential Service Commission noted that this volatility reflects the fact that each council has different capital considerations, or one off costs, such as those associated with floods or bushfires. Small shire councils or metropolitan councils were likely to see the largest swings in capital costs.⁴²

³⁷ Parliamentary Budget Office, *Submission 107*, p. 13.

³⁸ Parliamentary Budget Office, *Submission 107*, p. 20.

³⁹ Parliamentary Budget Office, *Submission 107*, p. 13; Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 32.

⁴⁰ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 32.

⁴¹ Parliamentary Budget Office, *Submission 107*, p. 1.

⁴² Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 34.

The growth in total expenditure is unevenly spread between different groups of councils. Expenditure on a per-capita basis has been rising higher for small shires (2.6%) and metropolitan councils (2.3%) than other groups.⁴³ However, each council has their own expenditure priorities and a number decreased their spending. The Essential Services Commission notes that '17 councils had negative growth rates, highlighting the fact that each council's financial situation is unique.'⁴⁴

The particular cost pressures faced by councils will be discussed further in Section 3.5.

3.4.1 Operating expenditure

Operating expenditure accounts for approximately three quarters of council spending,⁴⁵ however, some estimates show it to be higher.⁴⁶ Operating expenses relate to ongoing costs such as employee wages, materials and services. This is separate to capital expenditure, which relates to the construction and maintenance of infrastructure or assets.

The submission from the Parliamentary Budget Office provided a detailed breakdown of operating expenditure using data from the Victorian Local Government Grants Commission. It breaks down operating expenditure by:

- **function** – the nature of service (for example, recreation and culture or waste management); and
- **type** – the input cost (e.g. employee expenses or material and services costs).

Operating expenditure by function

Councils provide a diverse range of services to their communities. The Victorian Local Government Grants Commission collects data on the amount councils spend on these services and classifies them across nine functions. These functions and examples of the types of services that fall under each function are provided in Figure 3.4 below.

⁴³ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 32.

⁴⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 31.

⁴⁵ This figure is provided by the Essential Services Commission (*The Outcomes of Rate Capping*, 2023, p. 31). Data provided by the PBO states that the figure is 82.3% over the period.

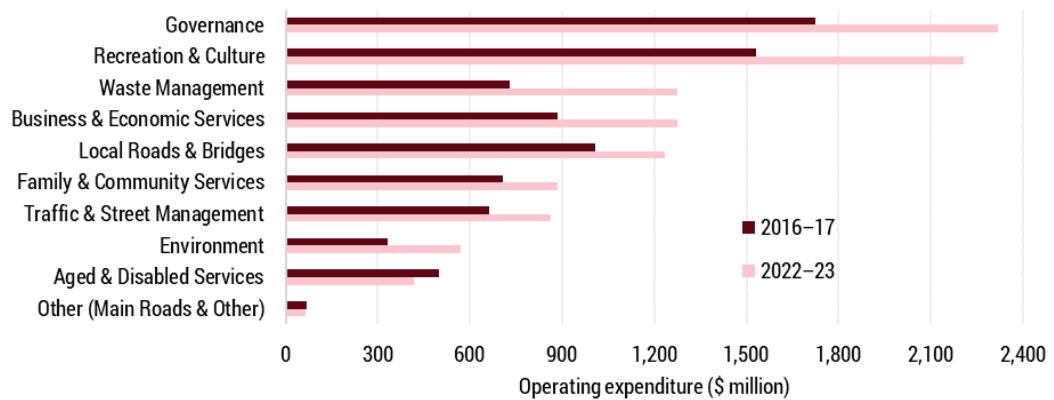
⁴⁶ Parliamentary Budget Office, *Submission 107*, p. 1.

Figure 3.4 The Victorian Local Government Grant Commission's definition of council functions and services

Function	Services	Examples of services
Governance	Public order and safety, financial and fiscal affairs, natural disaster relief	Council operations and building maintenance, health inspections, insurance, natural disaster relief and restitution works
Family & Community Services	Community health and welfare services	Play centres, preschool programs, community bus hire, neighbourhood houses, maternal and child health centres
Aged & Disabled Services	Residential care, community care services	Senior citizens centres, home care, personal care, respite care, meals on wheels
Recreation & Culture	Sports grounds and facilities, parks and reserves	Sports complexes, gardens, bicycle tracks through parks, marinas and jetties, art galleries support, libraries
Waste Management	Residential and commercial waste	Garbage and recycling bins, hard waste, council tips and transfer stations, sale of recycled material, commercial waste collection and disposal
Traffic & Street Management	Footpaths, kerbs and channels	Traffic lights, road signs, roundabouts, parking facilities and fines, street lighting and cleaning, school crossing supervision
Environment	Programs that protect biodiversity and habitat, drainage	Flood mitigation, beach restoration, fire access tracks, underground drains, weirs for controlling run-off, control of vermin and noxious weeds
Business & Economic Services	Community development and planning, building control	Subdivisions, planning, building and scaffolding inspections and fees, tourist information centres, caravan parks, ferries, airports, fees for commercial businesses
Local Roads & Bridges	Road and bridge works	Roads, bridges, bicycle lanes, joint road works with other public bodies

Source: Parliamentary Budget Office, *Submission 107*, p. 12.

Figure 3.5 provides information on the amount of funding that is spent on each of these functions in both 2016–17 and 2022–23.

Figure 3.5 Operating expenditure by function (all councils)

Note: This excludes some non-recurrent expenditure reported separately to the Victorian Local Government Grants Commission.

Source: Parliamentary Budget Office, *Submission 107*, p. 15.

The Parliamentary Budget Office noted the high proportion of spending on the top two functions: governance, and recreation and culture, which together account for 40.7% of council budgets.⁴⁷

As will be discussed in the following section, within each function, the largest types of spending are on employee costs, materials and services. The high expenditure on governance, and recreation and culture reflect that these roles involve a proportionately higher number of employees or contractors compared to other areas.⁴⁸

The fastest growing areas of spending since the introduction of rate capping in 2016-17 have been waste management, environment, and recreation and culture. The Parliamentary Budget Office commented:

Since 2016-17, expenditure on all functions has grown except aged and disabled services and other services. The fastest-growing services were waste management (9.7% per year), environment (9.5% per year), recreation and culture (6.3% per year), and business and economic services (6.3% per year).⁴⁹

The Essential Services Commission, in its *Outcomes of Rate Capping* report noted that the significant increase in waste costs may 'reflect significant disruption in the waste and recycling sector in recent years, with the collapse of service providers and ongoing reforms to the sector'.⁵⁰ While waste spending has increased, spending on family and community services, local roads and bridges, and traffic and street management on a per capita basis had declined.⁵¹

⁴⁷ Parliamentary Budget Office, *Submission 107*, p. 15.

⁴⁸ Victorian Local Government Grants Commission, *Local Government Accounting & General Information for the year ending 30 June 2023*, VGC 1.

⁴⁹ Department of Government Services Victoria, *Consultation & Council Data*, <<https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission/consultation-and-operations>>.

⁵⁰ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, 2023, p. 48.

⁵¹ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. xii.

Operating expenditure by type

The Victorian Local Government Grants Commission breaks down spending across local government functions by type. According to the Parliamentary Budget Office, the types of spending are:

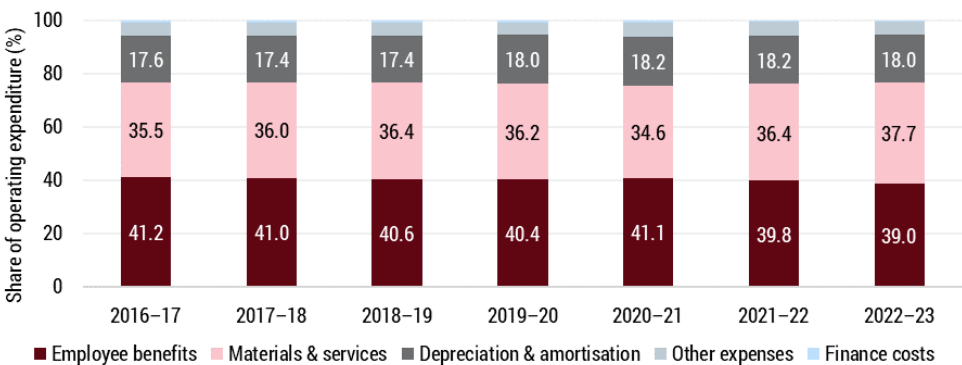
- **employee costs** – such as staff salaries and benefits
- **materials and services** – such as utilities and payments to contractors
- **depreciation and amortisation** – relating to council-controlled assets including roads; and
- **other expenses** – such as councillor allowances and bad and doubtful debts.⁵²

The largest type of cost is employee costs, which includes staff salaries. In the year 2022–23 employee benefits accounted for 39% of operating expenditure, while materials and services expenses accounted for 37.7%. These two largest types of spending comprised 76.6% of all operating expenditure for councils in 2022–23.⁵³

The Essential Services Commission in the *Outcomes of Rate Capping* report note that since the introduction of rate capping, employee costs have risen closely to ‘both the Wage Price Index and the Consumer Price Index, at around 1.5–3.5%’.⁵⁴ The report adds that material and services costs have been increasing faster than wages, with a spike 2021–22, likely cause by ‘a combination of coronavirus pandemic restrictions ending, increasing the amounts purchased as council services resumed, and high CPI, driving up the prices paid.’⁵⁵

Figure 3.6 gives an overview of the proportion of each type of council operating expenditure between 2016–17 and 2022–23. It shows a slight decrease in the share of employee expenses and a slight increase in materials and services spending.⁵⁶

Figure 3.6 Types of operating expenditure (all councils)



Source: Parliamentary Budget Office, *Submission 107*, p. 16.

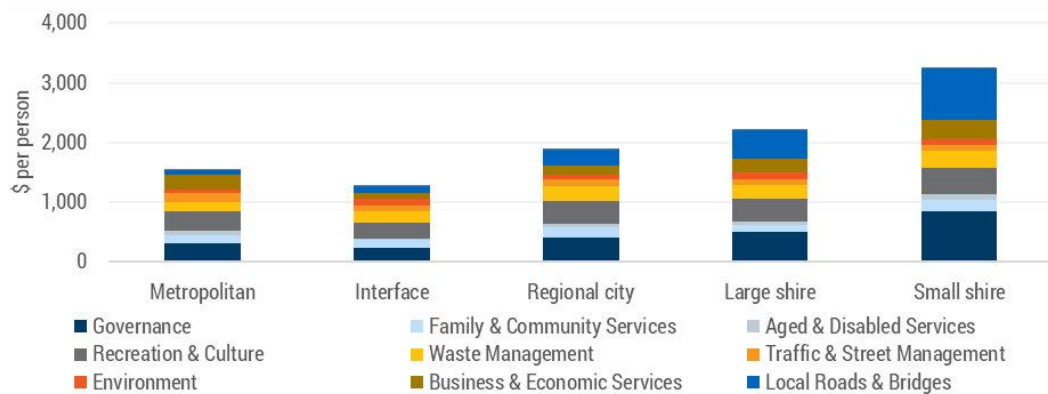
52 Parliamentary Budget Office, *Submission 107*, p. 14.
53 Parliamentary Budget Office, *Submission 107*, p. 14.
54 Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 35.
55 Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 37.
56 Parliamentary Budget Office, *Submission 107*, p. 16.

Operating expenditure across the different council groups

Each type of council faces different cost pressures in the delivery of services based on their geographic size, population size, population density and their distance from large urban centres.

The Parliamentary Budget Office provides an overview of operating expenditure for each category of council, by function for 2022–23. Figure 3.7 shows that small shire councils have higher costs per person for all functions, but particularly local roads and bridges, and governance and waste, compared to other council groups. These issues were reported to the Committee by individual councils and will be discussed in Section 3.5.

Figure 3.7 Operating expenditure for each council group by function per person, 2022–23



Source: Parliamentary Budget Office, *Submission 107*, p. 35.

Another key factor in the higher operational expenses per person for small and large shire councils is that they provide similar services to metropolitan councils, but for a smaller population. This necessitates services to be provided across a large geographic area.⁵⁷

Since 2016–17, average council operating expenditure per person has grown by an average of 4.1% per year. The growth has been uneven across council groups, with metropolitan and small shire councils experiencing the highest growth at 4.9% and 4.2% respectively. While regional city councils and large shire councils have only experienced 3.0% and 3.4% growth in operational costs.⁵⁸

By spending type, the Parliamentary Budget Office shows metropolitan councils spend proportionately more on employee expenses than large and small shire councils (see Figure 3.8). However, large and small shire councils have more depreciation and amortisation expenses, due to the larger share of local roads under their control.⁵⁹

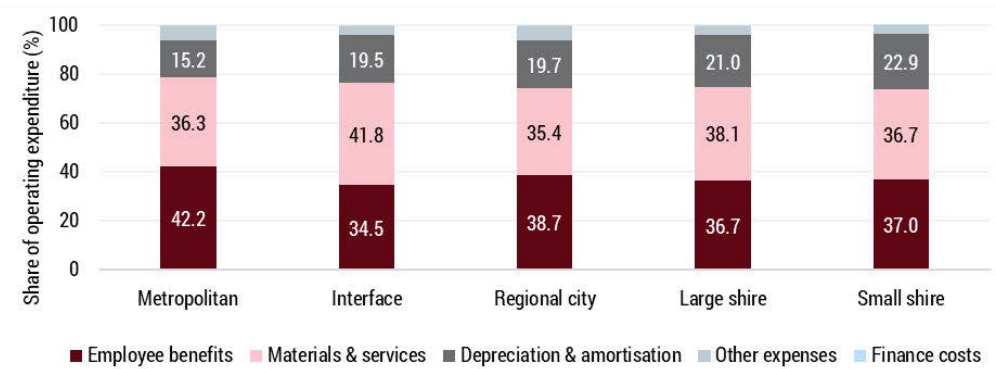
⁵⁷ Parliamentary Budget Office, *Submission 107*, p. 35.

⁵⁸ Parliamentary Budget Office, *Submission 107*, p. 16.

⁵⁹ Parliamentary Budget Office, *Submission 107*, p. 16.

The disproportionate share of roads managed by small shire councils is discussed in Section 3.5.1.

Figure 3.8 Operating expenditure by council group, 2022–23



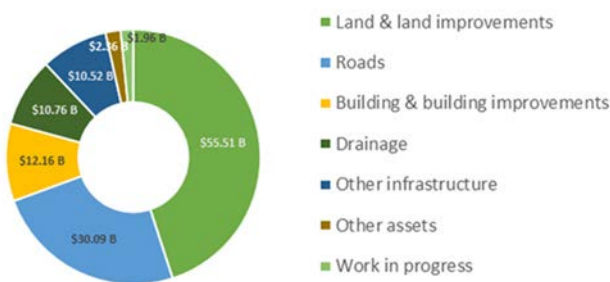
Source: Parliamentary Budget Office, *Submission 107*, p. 35.

3.4.2 Capital expenditure

Councils are responsible for delivering and maintaining a diverse range of infrastructure assets, from roads and bridges to sporting and recreation facilities. As a result, they incur significant expenses in building new infrastructure and renewing and maintaining assets. This spending is known as capital expenditure.

Figure 3.9, from Local Government Victoria, gives an overview of the types of capital assets by value owned by councils in 2020–21 using data from the Victorian Auditor General’s Office. It shows significant council assets in terms of land, roads, buildings and drainage. All of which require significant investments to deliver and maintain.

Figure 3.9 Council Assets and Infrastructure 2020–21



Source: Local Government Victoria, *Asset plan Guidance 2022*, p. 4.

In proportion to the revenue they collect, councils are responsible for managing far larger infrastructure portfolios than other levels of government. According to the Parliamentary Budget Office, for the 2022–23 period, council assets were valued at more than 10 times the yearly revenue, while the asset-to-revenue ratios for the

Australian and Victorian Governments were 1.1 and 5.2, respectively.⁶⁰ The imbalance between the responsibilities of councils and the revenue they collect in comparison to other levels of government is discussed further in Chapter x.

According to the Essential Services Commission, councils categorise their capital spending by the type of project it relates to:

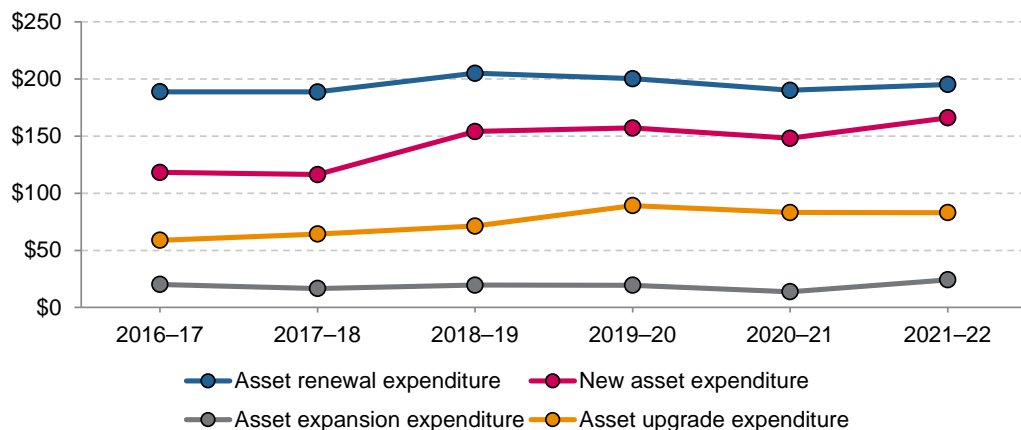
- **New** – creates an asset to provide a service that does not currently exist.
- **Renewal** – addresses wear and tear to improve the condition of an asset beyond regular maintenance and repair. This excludes the improvement of an asset above its original standard (see ‘upgrade’ or ‘expansion’).
- **Upgrade** – enhances an existing asset to provide an improved level of service.
- **Expansion** – expands the capacity of an existing asset to service more people.⁶¹

Figure 3.10 from the *Outcomes of Rate Capping* report shows that overall, councils spend the most on asset renewal, followed by new assets, then asset upgrade, and finally asset expansion.

It should be noted that asset renewal is the biggest capital expense for all types of councils except for interface councils, who spend more on new infrastructure to cater to their growing communities.⁶²

Throughout this Inquiry, councils reported that asset renewal was one of their biggest cost pressures. This will be discussed in depth in Section 3.5.1.

Figure 3.10 Capital spending per person, by category, 2016–17 to 2021–22



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 39.

⁶⁰ Parliamentary Budget Office, *Submission 107*, p. 16.

⁶¹ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 39.

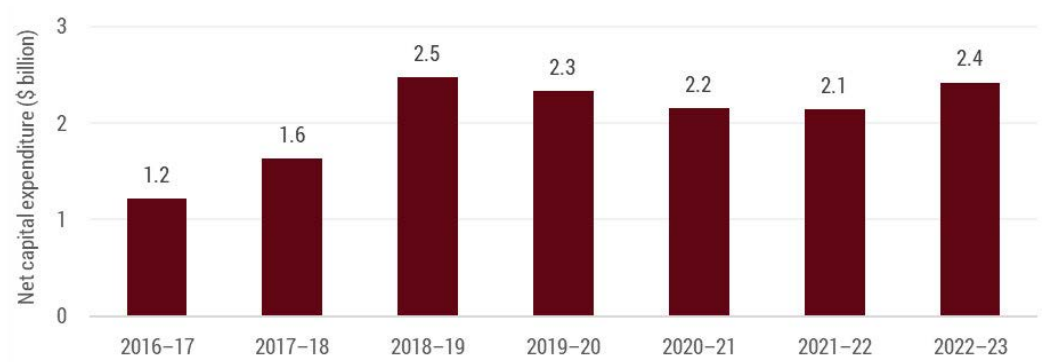
⁶² Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 40.

The Parliamentary Budget Office states that ‘in 2022–23, councils reported a total of \$2.4 billion in net capital expenditure, up 12.9% from the prior year. Metropolitan and interface councils comprised around 61% of total expenditure on capital assets.’⁶³

As a whole, capital expenditure has grown over the period of rate capping. However, the rate of spending has been variable in comparison to operating expenditure, with periods of high growth and periods of a decline. The Parliamentary Budget Office notes that ‘this is particularly so at the council and group level.’⁶⁴

Figure 3.11, from the Parliamentary Budget Office, shows the total spending on capital expenditure between 2016–17 and 2022–23, which illustrates increases and decreases in spending since 2018.

Figure 3.11 Council net capital expenditure, 2016–17 to 2022–23



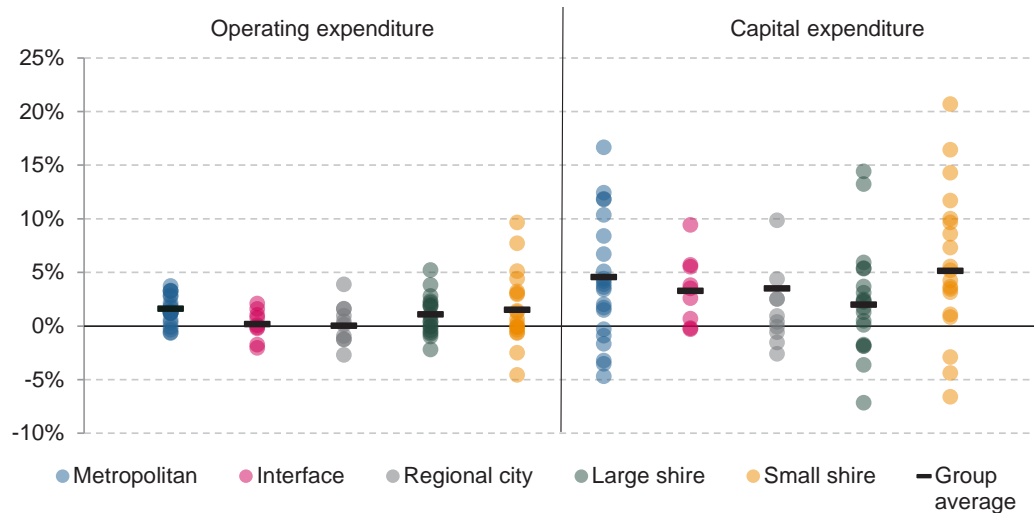
Source: Parliamentary Budget Office, *Submission 107*, p. 18.

The Essential Services Commission’s *Outcomes of Rate Capping* report provides capital spending data at a council level. Figure 3.12 gives a comparison between the variability of capital expenditure and operating expenditure. It shows significant variability between the capital expenditure of council types, and within those council groups, there is more variability still. Small shire councils in particular, range from an annual capital spending growth of over 20% per person for one council and a decrease of over 5% for another.

⁶³ Australian Bureau of Statistics, *Government Finance Statistics, Annual, 2022–23 financial year*, <<https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/latest-release>>.

⁶⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 41.

Figure 3.12 Average annual growth in operating and capital expenditure per person 2015–16 to 2021–22



Source: Essential Services Commission, *Outcomes of Rate Capping*, 2023, p. 33.

Large increases in capital expenditure may be due to one-off costs, such as those related to flood or bushfire recovery. In some cases, councils will have received specific-purpose grants to cover some of the increased capital expenditure.

The Victorian Auditor-General's local government audit for 2022–23 noted that councils as a whole had an underspend in their capital budget. The report stated 'in 2022–23, the sector's actual capital expenditure was \$3.163 billion. This was 26.2% (or \$1.128 billion) less than it budgeted.'⁶⁵ It recommended that councils assess their capital works budgeting processes.

According to FinPro, analysis of total capital works investments using consolidated amounts is inappropriate. Their submission stated 'While not a desirable outcome, the underspend in capital works is deferring the short term deterioration of financial position of local government, and likely deteriorating the longer term financial position'.⁶⁶ Other challenges with delivering capital works include obtaining necessary contractors and grants timing.

FINDING 7: Expenditure has grown faster than council revenue in recent years. Growth is primarily driven by the steady increase in operating expenditure, which makes up the majority of council spending. Capital expenditure has also risen over this period, but varies from year to year and council to council.

⁶⁵ Victorian Auditor-General's Office, *Results of 2022–23 Audits: Local Government*, p. 18.

⁶⁶ Local Government Finance Professionals, *Submission 11*, p. 6.

3.5 Cost pressures faced by local councils in Victoria

The Committee engaged with councils across the state to understand their financial situation and hear their concerns about the future. Many told the Committee that the most pressing issue was asset renewal. They feared that asset maintenance would become increasingly difficult, resulting in failing infrastructure and expensive replacement.

Other key cost pressures faced by local councils include workforce issues and climate change. Together these issues present challenges to the long-term financial sustainability of councils, which will be discussed in Section 3.8.

The cost pressures listed in this Section are primarily those which are not imposed on local councils by the Victorian Government. The Committee received a substantial amount of evidence on cost pressures faced by local councils as a result of cost shifting. These are addressed in detail in Chapter 6.

3.5.1 Asset renewal

The ability to fund asset renewal was one of the most common anxieties expressed by councils in relation to their financial sustainability. The Committee heard time and time again that the ability of councils to adequately fund the renewal of their infrastructure was under threat because of their constrained revenue. They warned that councils were putting off asset renewal, resulting in higher repair or replacement costs, and ultimately the endangerment of community safety.⁶⁷

The MAV gave the Committee an overview of the large infrastructure portfolio maintained by councils in comparison to other levels of Government:

For every dollar of revenue that Victorian councils collect, they manage \$10 of physical assets, like parks, roads and kindergartens. For the Victorian government this figure is \$4, and for the Commonwealth government it is 40 cents.⁶⁸

The MAV stated that ‘accordingly, local governments have large fixed costs to maintain these assets, imposing a major constraint on their budgets.’⁶⁹

Figure 3.13 below from NSW’s Local Government Code of Accounting gives examples of the kinds of asset renewal for different classes of assets.

⁶⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 17.

⁶⁸ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 14.

⁶⁹ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 14.

Figure 3.13 Examples of asset renewal costs and activities

Asset class	Asset category	Example costs and activities
Buildings Other structures		Painting (minor), air conditioning, changing light fixtures, furniture repair, pest control, drain clearing, water and energy charges, elevator servicing, water and sewer charges, signage, security costs, mowing, waterproofing, fire protection servicing, parking, goods delivery, phone servicing, IT servicing.
Roads	Sealed roads	Pothole repair, crack sealing, heavy patching (where the useful life remains unchanged), street lighting energy and operating costs, pavement markings, guide posts, vegetation control, mowing, roadside slashing, table drain clearing, grading unsealed surfaces, enrichment seals, traffic control, signage (individual placement), kerb and gutter repair, footway and cycleway maintenance, street furniture repair, clearing subsoil drains, tree inspection and maintenance, grout injection for rigid pavements, paver sealing, utility works inspections, utility works and associated betterment (where useful life unchanged).
	Unsealed roads	
	Bridges	
	Other road assets including paths and car parks	
Water supply network		Routine activities such as water treatment plant operations, pump maintenance, water main and water service repairs, valve exercising, hydrant inspections, reservoir inspections, power consumption, chemical use, water meter reading, water sampling and testing, vegetation control/mowing, licensing, payment for bulk water supply.
Sewerage network		Routine activities such as sewage treatment plant operations, pump maintenance, sewer main repairs, clearing sewer chokes, pump station inspections/cleaning, CCTV sewer inspections, power consumption, chemical use, licensing, effluent re-use operations.
Stormwater drainage		CCTV, pipe blockage cleaning and associated disposal costs, pipe repair, tree root removal, relining (which does not extend useful life), repair pits and lids, clear/repair gross pollutant traps (GPTs), rain garden soil cleaning, rain garden plants, flood control device maintenance, traffic control, management of new connections.
Open space/recreational assets	Swimming pools	Water cleaning costs, chemicals, membrane and tile repair, repairing pool devices, repairing gym equipment, repairing shade structures, kiosk operations, advertising signs, and all building asset class example costs and activities.

Source: Office of Local Government NSW, *Local Government Code of Accounting Practice and Financial Reporting – Section 4 – Special Schedules*, p. 11.

The size of the problem

The Essential Services Commission monitors asset renewal spending as part of its *Outcomes of Rate Capping* reports. One of the measures used to monitor the rate of asset renewal is the asset renewal ratio. This refers to ‘the level of spending on asset renewal and upgrade projects as a percentage of depreciation (which is the decrease in the value of assets due to age and use).’⁷⁰

An asset renewal ratio of 100% indicates spending on asset renewal is enough to fully offset the decline in the value of the assets.⁷¹ Any number below this indicates an asset renewal gap, which the Commission described in the following way:

Councils spend varying amounts to maintain or improve their assets. This amount may not be enough to keep their assets in the condition needed to maintain service levels. Any shortfall is the ‘renewal gap’.⁷²

⁷⁰ Essential Services Commission, *The Outcomes of Rate Capping*, 2023 p. 41.

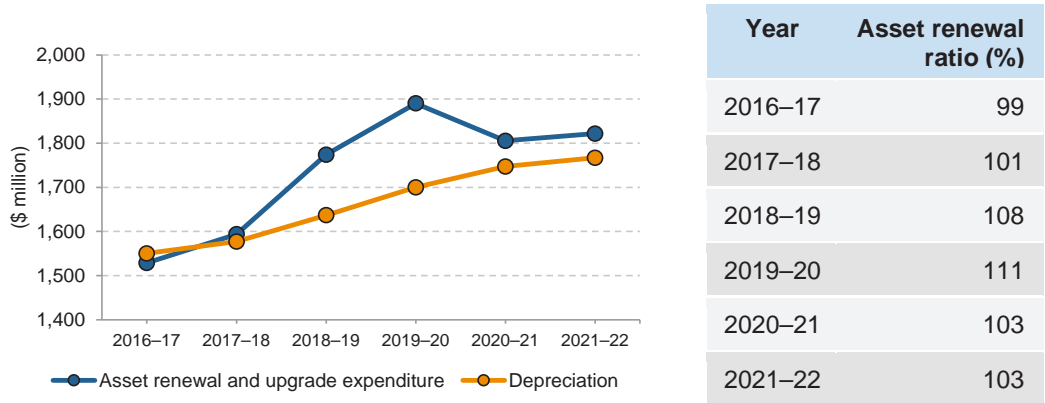
⁷¹ Essential Services Commission, *The Outcomes of Rate Capping*, 2023 p. 41.

⁷² Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 42.

Significantly, for the sector as a whole, the asset renewal ratio is currently positive. However, this masks significant variability between councils, and particularly between metropolitan, interface and regional city councils.

Figure 3.14 shows sector spending on asset renewal and upgrades as a whole kept pace with asset depreciation between 2016–17 and 2021–22.

Figure 3.14 Spending on asset renewal and upgrades against depreciation, 2016–17 to 2021–22



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 41.

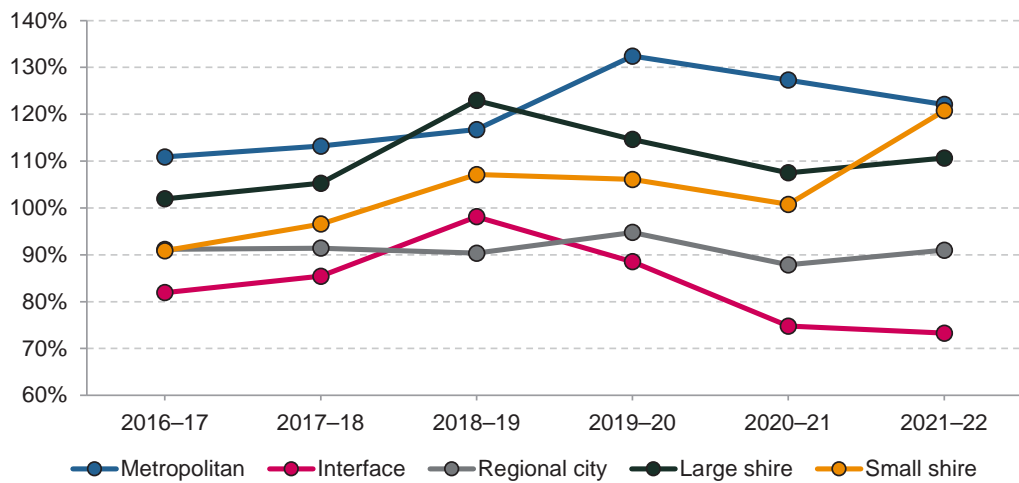
While the sector as a whole is keeping up with depreciation on average, not every council is doing so. The Essential Services Commission explained in their *Outcomes of Rate Capping* report:

Of the 79 councils, 48 had an asset renewal ratio of 100 per cent or more on average in the six years of rate capping. Of the 31 councils with an asset renewal ratio under 100 per cent, 16 of them had asset renewal ratios of 90 per cent or more.⁷³

Different council groups perform at different rates when it comes to asset renewal. Figure 3.15 shows the asset renewal ratios of each council group between 2016–17 and 2021–22. It shows the relatively high performance of metropolitan councils and weaker performance of interface councils. The Commission explains that interface councils spend more on new infrastructure have less need for asset renewal. This may account for their low asset renewal ratio on average.⁷⁴

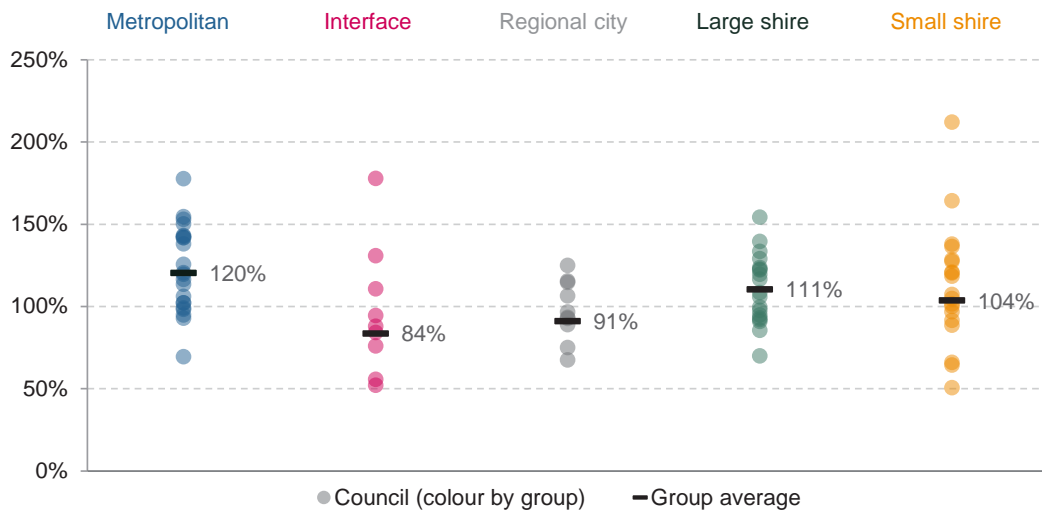
⁷³ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 43.

⁷⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 42.

Figure 3.15 Asset renewal ratios by council group, 2016–17 to 2021–22

Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 43.

Even within council groups, the position varies considerably from council to council. Figure 3.16 shows the range of these asset renewal ratios in each council group. This illustrates that each council has its own unique circumstances. For example, in the small shire group, the asset renewal ratio varies between over 200% for one council and 50% for another. The small shire council group average of 104% masks the significant number of councils who have an asset renewal ratio under 100%.

Figure 3.16 Asset renewal ratios between 2016–17 to 2021–22, by council type

Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 44.

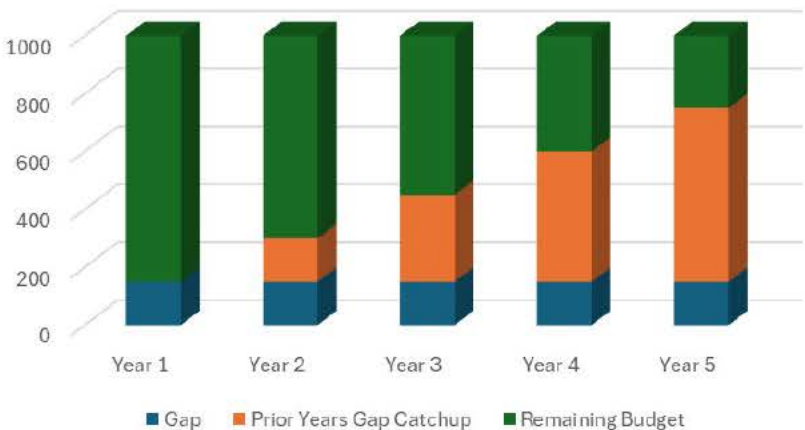
The Essential Services Commission explained the reasons for this variation may be to do with asset planning. They added, however, that a sustained inability to meet an asset renewal ratio may indicate a growing asset renewal gap:

There may be good reasons why the ratio is lower or higher in any given year. Councils' spending on renewal projects tends to occur in peaks and troughs. Spending is typically in line with an asset management plan rather than intended to offset depreciation each year. However, a sustained gap between depreciation and spending on asset renewal and upgrade projects may indicate that the asset renewal gap is growing.⁷⁵

The Committee was provided with evidence from several councils about their asset renewal expenditure. On the whole, they painted a picture of difficult financial choices leading to a growing asset renewal shortfall.

Yarriambiack Shire Council's submission explained that it could only meet 85% of its asset renewal demand. It provided data (Figure 3.17) showing that the gap will compound year on year, culminating in a significant asset renewal shortfall in just five years.⁷⁶

Figure 3.17 Yarriambiack Shire Council's asset renewal gap 5 year scenario



Source: Yarriambiack Shire Council, *Submission 45*, p. 7.

Livia Bonazzi, CEO of Murrindindi Shire Council, said that her Council had an asset renewal shortfall of \$8 million a year:

We have calculated that we have a shortfall of about \$8 million a year to bridge the funding gap in our renewals. That would allow us to bring the assets back to a reasonable condition, certainly not gold plating, and we have also observed an \$8 million shortfall in operational grants.⁷⁷

⁷⁵ Essential Services Commission, *The Outcomes of Rate Capping*, 2023 2023, p. 43.

⁷⁶ Yarriambiack Shire Council, *Submission 45*, p. 7.

⁷⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 18.

Hindmarsh Shire Council explained that 20% of the Shire's buildings were in an average to poor state.⁷⁸ Their submission said that without additional funding opportunities, they could have to reduce services:

Underfunded renewals will eventually lead to a situation where we will have more assets in unserviceable condition which eventually reduces the level of service provided to the community. Without excessive funding opportunities from other tiers of government, it will practically be impossible for small rural shires like Hindmarsh to catch up on the renewal gap.⁷⁹

Steven Piasente, CEO of Latrobe City Council, informed the Committee that even though his Council was in a 'pretty fortunate' position, because Latrobe is more compact than some of its neighbours, it was still not meeting its asset renewal needs: 'For our renewal gap, we are funding around 73 per cent of what we should be'.⁸⁰

While Phil Cantillion, CEO Frankston City Council, said that while the council has managed to maintain its assets so far, it considers that it will become harder and harder to do so:

On the maintenance side, in the past we have been very proud about how we have maintained our roads and other assets through there, but our ability to sustain that going forward is getting harder and harder. Tough decisions are being made in terms of 'Can this occur that year or can we hold this out for another couple of years?' And if we are holding it out, what does it mean in terms of the short-term strategy to maintain it? Not doing a re-sheet, an overlay through there – there are going to be more potholes. How do we manage that? They are the sorts of daily decisions we are making, versus new pavilion upgrades that just do not make sense.⁸¹

The submission from FinPro referenced the measure used by the Essential Services Commission and others to assess the asset renewal ratio. FinPro said that regulators were using a measure that included asset renewal and upgrades. They believed that the sector should be reporting on asset renewal alone, without upgrades data:

This ratio [with upgrades included] shows a higher value than would be considered if the indicator considered only expenditure on asset renewal alone. This is particularly the case given a significant portion of upgrades is grant funded or funded through developer contributions. FinPro is of the view that the local government sector should only be reporting and assessing a council's capacity to fund the renewal of assets, with any asset upgrades being excluded.⁸²

⁷⁸ Hindmarsh Shire Council, *Submission 38*, p. 3.

⁷⁹ Hindmarsh Shire Council, *Submission 38*, p. 3.

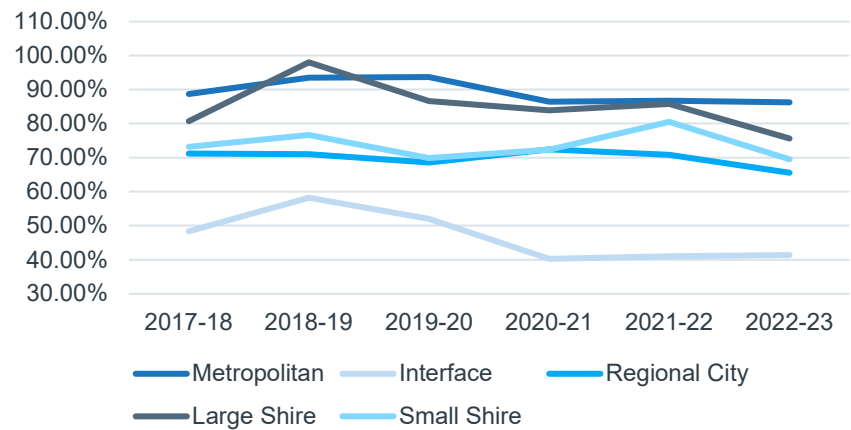
⁸⁰ Steven Piasente, Chief Executive Officer, Latrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 35.

⁸¹ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

⁸² FinPro, *Submission 11c*, p. 15.

Figure 3.18 shows the council asset renewal ratios with the upgrades component removed. It shows that no council group has been able to meet a 100% asset renewal ratio on renewal finding alone.

Figure 3.18 Asset renewal ratio with upgrade funding stripped out, by council group, 2017–18 to 2022–23



Source: FinPro, *Submission 11c*, p. 15.

There is a significant weight of anxiety from many councils about this issue. While high level statistics suggest councils are meeting their asset renewal targets, it is clear that not all councils are. The result is an asset renewal gap, which will be shown in subsequent sections to constitute a threat to the financial sustainability of councils and may pose a danger to community safety.

FINDING 8: Not all Victorian councils are spending enough on asset renewal to match depreciation. While some councils are meeting their asset renewal and upgrade requirements, there is significant variation in the performance of councils and many face a growing renewal gap. No council has an asset renewal ratio of 100% when asset renewal alone is considered.

The cost of asset renewal grows the longer it is put off

One of the key issues the Committee heard in relation to asset renewal was that early and consistent maintenance could reduce total asset renewal spending. If renewal spending was neglected, then more funds would be required later for repair and replacement work. The submission from FinPro gave an overview of this issue:

A deteriorating asset base will result in increased future costs as the frequency of maintenance increases and the cost of eventual intervention to renew the asset base increases. If local government is not funded adequately to complete cyclical preventative maintenance on assets or to renew asset components when needed, logically local government will not be financially sustainable over the medium to long term.⁸³

⁸³ Fin Pro, *Submission 11c*, p. 33.

Ms Bonazzi from Murrindindi Shire Council, agreed. Explaining that in her Shire, undertaking early and consistent asset renewal was more cost effective and an inability to do so could result in a catastrophic failure, putting community safety at risk:

It is not imminent, but we are talking in the medium to long term about potentially catastrophic failure and not being able to intervene at the optimal level in the life cycle of an asset. It costs us more in maintenance. It is a self-fulfilling prophecy, and it is bad economics. If we have the money to renew the assets when they are at the optimal point, the overall community cost is lower. So that is one aspect. Potentially the safety of the roads, bridges, culverts – there is more susceptibility to disasters if the assets are not in good condition.⁸⁴

Nathan Morsillo, CFO of the City of Greater Bendigo, told the Committee that the next generation will see problems and additional expenses if asset maintenance isn't prioritised now:

I think I said another time that this is not the sexy stuff; this is the asset management part that is probably for the next generation and is where we will see a problem if we do not keep up with funding that is adequate for roads or halls, because it is spend now or, if it gets into the worst condition, spend a lot more later on some of these halls if we do not keep up with where it is at. So that gap is increasing.⁸⁵

Emlyn Breese, Coordinator of Research and Policy from MAV, said that the impacts of a lack of asset renewal expenditure may not become apparent until later, and that it may be attractive to underspend on asset renewal in relation to other priorities:

There is probably a lot of room in council budgets where impacts are absorbed and not apparent until later. We talked about how infrastructure heavy council is, so a large amount of their costs are maintenance and proactive maintenance. In a budget process, you can imagine it is potentially a lot more attractive to cut down on the proactive maintenance infrastructure rather than an immediate cut to services which are highly visible and right now. That has compounding impacts. The longer you leave infrastructure to maintain, the more expensive it costs in the long run. So we are probably starting to see the impact of a length of period of time under rate capping.

Mr Breese said that this had been the case in New South Wales (NSW), which has had rate capping since 1977,⁸⁶ and it has resulted in financial issues for NSW councils.⁸⁷

Bradley Thomas, President of FinPro, said that the decisions by rate capped NSW councils to defer asset renewal has resulted in a 'massive number of rate cap applications' to pay for expensive failing infrastructure. It was noted that this is

⁸⁴ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence* p. 17.

⁸⁵ Nathan Morsillo, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, pp. 32–33.

⁸⁶ Local Government NSW, *Submission: IPART Review of the Rate Peg Methodology*, 2022, p. 5.

⁸⁷ Emlyn Breese, Coordinator Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 22.

‘something that you do not see in Victoria, because we have not quite got to that stage of infrastructure failing and services not being delivered.’⁸⁸

Mr Thomas gave a stark assessment of the size of the rate cap increases NSW councils were asking their communities to take on to repair neglected infrastructure, and urged Victoria not to make the same mistakes:

In New South Wales over the last three or four years we have seen multiple rate cap applications and for massive percentages. We are not talking 1 or 2 or 3 per cent. You are talking rate cap variations in New South Wales of 40, 50, 60, 70 per cent to fix that infrastructure because New South Wales did not look at how they could fix things in the short and medium term. I suppose that is really our ask to the Committee: let us not repeat some of the mistakes that appear to have been made to the north of us, and let us see if we can work better together now to fix some of those things. We do not want 30, 40 and 50 per cent rate caps in years to come.⁸⁹

The Committee was told it was not just NSW where these issues have appeared. Tash Wark, Branch Secretary of the Australian Services Union, discussed the impact of Victoria’s previous implementation of rate capping in the 1990’s. She said that like NSW, there was a lack of investment in asset maintenance, resulting in compromised community safety and economic inefficiency:

In the 1990s rate capping resulted in ongoing investment and maintenance shortfalls for local governments, producing compromised community safety, inconvenience and economic inefficiency, which we are really at risk of repeating now. Underinvestment in services and infrastructure just hampers the ability of councils to deliver new projects and initiatives, to the detriment of the communities in which those local councils operate. These consequences are clearly emerging under this current policy as well. Again, MAV reported back then about a worrying shortfall in capital investments by local councils and councils opting out of community services due to budget constraints. The inevitable result of this arbitrary restriction on the ability of local governments to provide needed services and infrastructure and mobilise the resources required to pay for them will be the continued degradation of local infrastructure, services and quality of life.⁹⁰

FINDING 9: Councils face increased asset renewal costs if they do not prioritise early and ongoing renewal in an asset’s lifecycle. A failure to keep up with asset renewal results in more expensive repair and replacement costs.

⁸⁸ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 43.

⁸⁹ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 43.

⁹⁰ Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 17.

Competing priorities

Asset renewal is one of many competing priorities in council budgets. The Committee heard it may be attractive for councils to prioritise other areas that deliver more immediate or readily apparent results to the community.

Mark Stoermer,, Director of Corporate Services at Brimbank City Council, explained that ‘one of the biggest challenges in the sector is balancing renewal with new. Councillors, as you would imagine, love new assets – it is the ribbon cutting’.⁹¹ He added that ‘funding renewal, though, can be challenging because, as important as roads are, they not particularly sexy, so having the discipline to renew roads, drains, footpaths, park assets and all of those things – how you balance that out is critical.’⁹²

Dean Hurlston, Council Watch, argued that councillors may prioritise new assets for political gain:

Many councillors abuse their position and the limited financial resources of councils for political gain and starve them of asset renewal. This is so prevalent it is not funny. Obviously sporting investment – pools, aquatics centres and all those things – are really important, but they must be done where they deliver maximum community benefit or return. When it is prioritised instead of asset renewals, it just starves the basics. We know that councils historically have had poor asset management programs. We know this because VAGO repeatedly tells us so.⁹³

Bradley Thomas from FinPro, said that it was sometimes easier for councils to cut spending on capital works rather than services. However, this is a short term approach:

I think sometimes it is easier to cut capital works than services. It is tough to have those conversations with councillors and the communities around reductions in services like libraries, customer service and all of that, and so you tend to sort of say, ‘Oh, well, we’ll stop doing that one project or we’ll reduce that one road.’ Also there are real demands on growth. Communities are growing and communities are demanding more, so councils have been in a position around building that next asset, or building that next asset that is a bit bigger. So what is happening is this really short-term approach of, ‘Well, okay, if we delay that spending on that road, that looks okay at the moment. We can probably get one or two years away to build that bigger asset.’⁹⁴

Councils are required under the *Local Government Act 2020* to have an Asset Plan.⁹⁵ Asset plans engage the community and set out a council’s asset classes, the state of the assets and the choices the community and council have on what assets to fund. These may be new assets or existing assets.⁹⁶

⁹¹ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 6.

⁹² Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 6.

⁹³ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 60.

⁹⁴ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 43.

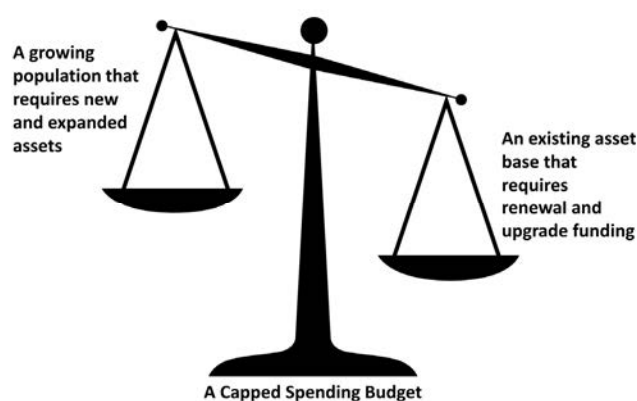
⁹⁵ *Local Government Act 2020* (Vic), s. 92.

⁹⁶ Local Government Victoria, *Asset Plan Guidance 2022*, p. 3.

Local Government Victoria provide guidance on asset management plans, emphasising the importance of consultation and informing the community of difficult choices they must make in a financially constrained environment (see also Figure 3.19).

When delivering engagement on the Asset Plan, councils may want to consider communicating to the community the challenges they face when making decisions that must balance between infrastructure performance and expenditure choices. The transparency that councils display at this stage can be helpful to answer the questions councils face concerning the trade-off between planned budgets and asset requirements.⁹⁷

Figure 3.19 Local Government Victoria’s guidance on community engagement in relation to asset plans



Source: Local Government Victoria, *Asset Plan Guidance 2022*, p. 9.

Mike Gooley CEO of Local Government Victoria, was asked about the concerns councils have about their ability to fund asset renewal and continue to deliver services. He replied that it was up to individual councils to prioritise how their budgets are spent, similar to other levels of Government:

But in terms of, if you like, the balance between services and asset renewal, they are an independent tier of government. It is 79 separate organisations making decisions. So a lot of the issues around the balance actually come down to the decisions of the elected representatives at each council with regard to what looks like asset renewal, what the services are and what the trade-off is, if you like, for those sorts of decisions, not dissimilar from every layer of government having to make a decision over what the priorities are for the limited resources that are available.⁹⁸

The Committee notes that, as described in Section x, other levels of Government have the ability to raise revenue to meet service and infrastructure needs as they see fit. Other levels of Government also do not have cost shifting imposed on them. These issues will be addressed in Chapter 6.

⁹⁷ Local Government Victoria, *Asset Plan Guidance 2022*, p. 9.

⁹⁸ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 2.

FINDING 10: Asset renewal is a vital role of councils that is easy to neglect in favour of new capital infrastructure or services that are more readily apparent to the community. However, a failure to carry out this important task results in degraded infrastructure that is expensive to replace and can put community safety at risk. Individual councils are given the responsibility of prioritising this task against a background of competing priorities and constrained revenue.

Increased transparency and accountability

Fin Pro and a number of councils brought to the Committee's attention financial reporting guidelines about asset renewal in NSW. The *Local Government Code of Accounting Practice and Financial Reporting – Section 4 – Special Schedules*, requires NSW councils to provide information on asset renewal as part of their annual financial reporting process.

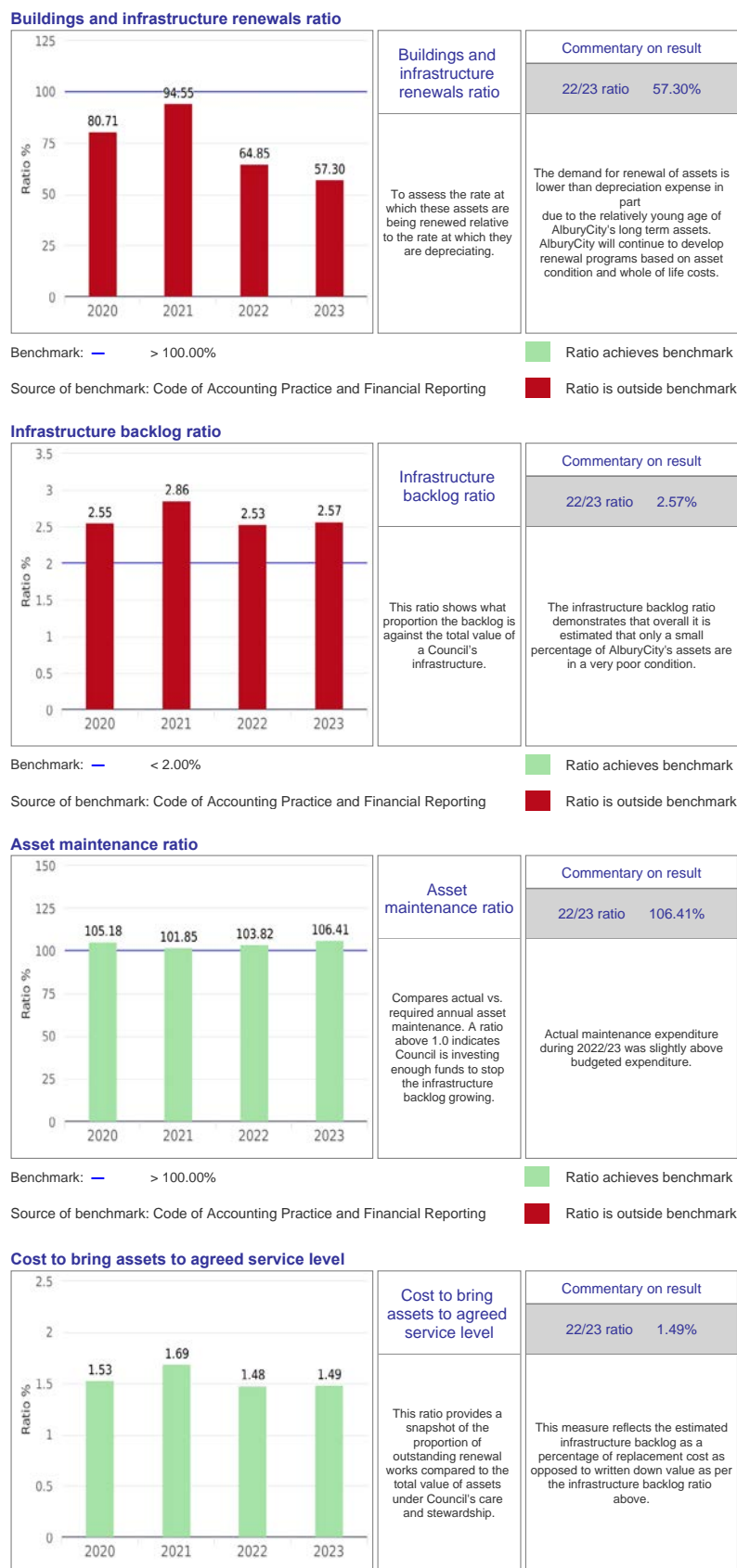
Specifically, the reporting requirements mandate councils to publish information on:

- estimated cost to bring assets to satisfactory standard
- estimated cost to bring assets to agreed level of service set by council
- required maintenance costs
- gross replacement costs
- asset condition as a percentage of replacement cost.
- the building infrastructure renewals ratio
- the infrastructure backlog ratio; and
- the asset maintenance ratio.⁹⁹

Figure 3.20 from Albury City Council's annual financial report gives an example of the asset renewal information published each year.

⁹⁹ Office of Local Government New South Wales (NSW), *Special schedules – Local Government Code of Accounting 2022/23 – Section 4*, pp. 5–6.

Figure 3.20 Albury City Council's report on infrastructure assets 2022–23

Source: Albury City Council, *Special Schedules for the year ended 30 June 2023*, p. 7.

FinPro recommended that Local Government Victoria engage with the sector to establish a similar process for Victorian councils. This will highlight the capacity of councils to fund asset renewal and other capital costs:

That LGV engages with the sector and establishes a more detailed report on assets, similar to the required schedule Report on Infrastructure Assets for NSW councils, to ensure transparency in reporting of assets and the capacity of councils to fund the necessary maintenance and capital investments.¹⁰⁰

A number of other councils supported this recommendation in their submissions to the Committee.¹⁰¹

The Committee believes additional reporting on council asset renewal performance would be beneficial in providing a measure of transparency for both the public and the Victorian Government. This will be important for local councils in consulting with the public on asset plans. Councils will be able to provide the data and benchmarking to have conversations with their communities to make difficult decisions about what infrastructure priorities to fund.

Increased transparency on asset renewal performance will also assist councils in seeking support from the Victorian Government to maintain assets. The data may be used in grant applications and will make more information available to the Essential Services Commission to help it advise the Minister for Local Government on the level of rate caps.

The City of Knox's submission supported FinPro's recommendation to for LGV to work with the sector to establish a public report on asset renewal. The Council added that 'the outcome of this report should be mandated to be taken into account by the Essential Services Commission when recommending the rate cap'.¹⁰² Glen Eira City Council also recommended establishing a long-term funding mechanism for asset renewal so councils could have predictability in funding allocation for this important task.¹⁰³

The Committee believes council reporting on this issue will promote transparency and establish benchmarking upon which additional funding can be based.

RECOMMENDATION 5: That the Victorian Government consult with the local government sector to establish financial reporting requirements for infrastructure assets, whilst considering the New South Wales Office of Local Government *Local Government Code of Accounting Practice and -Financial Reporting – Section 4 – Special Schedules*.

¹⁰⁰ FinPro, *Submission 11*, Attachment 2, p. 6.

¹⁰¹ Rural City of Wangaratta, *Submission 46*, p. 2; Indigo Shire Council, *Submission 12*, p.6; Knox City Council, *Submission 47*, p. 3; City of Greater Bendigo, *Submission 95*, p. 7.

¹⁰² Knox City Council, *Submission 47*, p. 3.

¹⁰³ Glen Eira City Council, *Submission 29*, p. 5.

Roads and bridges

Notably, one of the most significant assets under council control is local road infrastructure. Victorian councils manage over 80% of the road network and report more than 133,000 km of road assets in the 2022–23 Victorian Local Government Grants Commission survey.

Small and large shire councils' shoulder by far the most significant burden of the financial cost of managing these roads. Together they report managing more than 65% of the local road network. Significantly, these councils maintain more assets than metropolitan and interface councils, but raise revenue from a smaller population.¹⁰⁴

An example of the enormous road network under the management of shire councils was provided by Yarriambiack Shire Council in Figure 3.21, who manage the kilometre equivalent of the distance from Wellington to Coolgardie in WA.¹⁰⁵

Figure 3.21 The length of the road network managed by Yarriambiack Shire Council

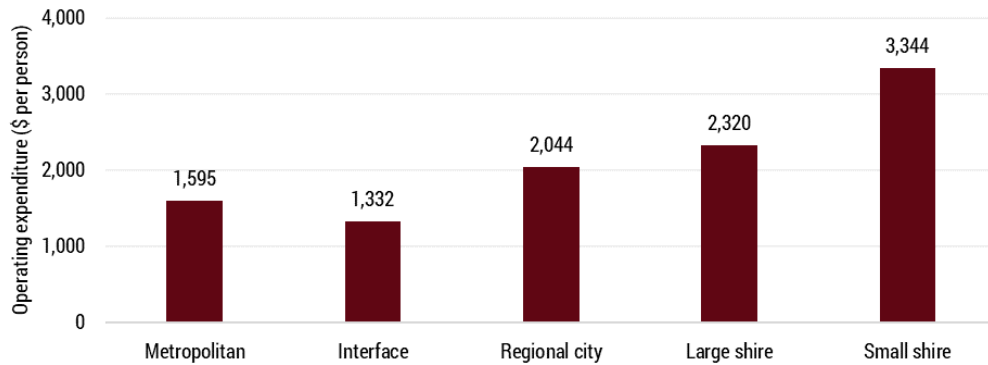


Source: Yarriambiack Shire Council, *Submission 45*, p. 1.

The submission from the Parliamentary Budget Office provided data (Figure 3.22) showing the operating expenditure per person on managing roads in 2022–23 by council group. It highlights that small shire councils spending more than twice as much as their metropolitan counterparts.

¹⁰⁴ Parliamentary Budget Office, *Submission 107*, p. 17.

¹⁰⁵ Yarriambiack Shire Council, *Submission 45*, p. 1.

Figure 3.22 Roads managed per person by council group, 2022–23

Source: Parliamentary Budget Office, *Submission 107*, p. 17.

The Committee heard that funding the asset renewal of such large road networks was difficult for shire councils. Greg Box, CEO of Bass Coast Shire Council, explained that 10% of the Shire's roads are in very poor condition, which comparatively is 'one of the best in the state'. However, even starting from a comparatively good position, the Shire still needed to find an additional \$1.6 million a year to keep the roads in the same condition. He cautioned that 'if we do not, of course we are robbing Peter to pay Paul, so our assets are going to deteriorate and that very poor component is going to increase fairly dramatically over the next few years.'¹⁰⁶

Mary-Ann Brown, Chair of Rural Councils Victoria, explained that poor road conditions in regional Victoria had significant economic and social costs:

That network is critical if you are going to be accessing medical services, if you are getting your product to market and kids to school – just accessing a whole range of services. So people are travelling a lot in vehicles. Then there is the damage that occurs to vehicles as a result of the condition of roads, and probably our local smash repairers would be able to give you a better indication of that.¹⁰⁷

Stuart King, Mayor of Swan Hill Rural City Council, explained that some community members did not differentiate between roads managed by the State Government and those managed by councils. He explained that the poor condition of state roads was a reputational risk for councils:

The biggest thing is reputational damage, because as I said in my opening remarks, our ratepayers do not necessarily understand – nor should they have to understand – the differentiation between what a council road is and what a VicRoads road is, particularly where state assets, VicRoads roads, go through our major centres.¹⁰⁸

¹⁰⁶ Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 1.

¹⁰⁷ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 54.

¹⁰⁸ Cr Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 4.

The Committee asked Colin Morrison of Local Government Victoria, to provide information about the funding councils receive for roads. He replied that he was unable to give an indication of the total funding allocation because some of it is untied.¹⁰⁹ However, he gave an overview of the varied sources of funding specifically for roads:

The local roads grants only comprise a portion of what councils receive from both state and Commonwealth funding. There is also an element of the general-purpose grants that relates to local roads as well. About 15 per cent or so of the general-purpose grants relates to local roads, and then in addition the Commonwealth also provides significant other assistance through programs they administer directly, including Roads to Recovery and the more recent local roads and community infrastructure program, which was funded during the pandemic. That is Commonwealth funding. In addition to that, there is state assistance that is provided directly but outside of our portfolio.¹¹⁰

FINDING 11: The renewal and upgrade of roads and bridges are a significant cost pressure, particularly for large and small shire councils due to their geographic size and comparatively small rate base. Grants programs, including Federal Assistance Grants, have regard for these issues when awarding funding. However, it remains a threat to the ongoing financial sustainability of rural and regional councils.

3.5.2 Infrastructure delivery costs

In addition to asset renewal and roads and bridges, the Committee was informed that the cost for local councils to deliver infrastructure has risen substantially in recent years. According to stakeholders, these increases are the result of inflation in the cost of materials and labour shortages. This has created significant financial challenges for councils.

FinPro told the Committee that the Victorian Government estimates there has been a 22% increase in the cost of infrastructure delivery. Meeting this cost increase has been challenging for councils who's rates income has been capped at 2.75%:

In considering capital expenditure of local government it is important to note that in the Victorian Budget 2024–25 highlights the financial sustainability challenges councils currently face in Victoria. Throughout the budget material, the State Government highlights the 22 percent increase in infrastructure costs since 2021. This is an even more challenging weight to bear for local government with rates capped at just 2.75 percent.¹¹¹

¹⁰⁹ Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, pp. 11–12.

¹¹⁰ Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, pp. 11–12.

¹¹¹ FinPro, *Submission 11c*, p. 6.

The Victorian budget explained that the causes of the rise in construction costs are ‘increases to the cost of materials, labour and transportation’.¹¹²

The failure of the rate cap to keep up with infrastructure costs was noted by the City of Ballarat,¹¹³ who said that inflation had led to ‘rapid cost escalations making the task of planning and delivering capital projects extremely challenging and leading to funding gaps which must be bridged by Council’.¹¹⁴

Growth area councils are required to deliver significant amounts of new infrastructure to cater for their growing communities on Melbourne’s fringes. They report that the increase in infrastructure costs has been a considerable financial strain. Carol Jeffs, CEO of Cardinia Shire Council, explained:

Building and construction, delivering the large volume of infrastructure required in a growth area means significant exposure to the building and construction sector and the pressures that they are feeling, where costs have grown dramatically. In addition, we are routinely seeing cost increases of 18 per cent or more, even in the most competitive tender processes, and that means that delivering essential infrastructure is crowding out spending and investment in other areas.¹¹⁵

Sheena Frost, CEO of Hume City Council, gave an example of the projected cost escalations to build community facilities between 2021 and now:

The original budget for that project was \$5.76 million. It opened in 2021 for a cost of \$5.81 million. Fast-forward to today, and our budget for these same facilities is typically going to be around \$10 million. As a result of cost escalations we have rephased our entire program, which means projects will be delivered later than expected.¹¹⁶

MAV’s submission explained that one of the reasons for the escalation in infrastructure costs was labour shortages. The MAV cited Infrastructure Australia data which states that shortages in labourers and structural and civil engineers means that the supply of labour won’t meet demand until 2027.¹¹⁷ As a result they said:

These labour shortages affect them [councils] significantly. Costs to deliver infrastructure have risen dramatically. In addition to the shortfall driving up prices, many councils have been simply unable to complete projects.¹¹⁸

¹¹² Victorian Government, Victorian Budget 2024–25, *Being realistic about the challenges*, <<https://www.budget.vic.gov.au/being-realistic-about-challenges>> accessed 23 October 2024.

¹¹³ City of Ballarat, *Submission 41*, p. 2.

¹¹⁴ City of Ballarat, *Submission 41*, p. 2.

¹¹⁵ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 27.

¹¹⁶ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 50.

¹¹⁷ Municipal Association of Victoria, *Submission 105*, p. 49.

¹¹⁸ Municipal Association of Victoria, *Submission 105*, p. 49.

The MAV provided the results of a survey of councils in 2022 which found that over 80% of respondents had seen responses to infrastructure tenders weaken over the preceding 12 months. This has impacted the ability of councils to meet grant funding timelines.¹¹⁹

Recent policies announced by the Victorian Government in relation to activity centres in metropolitan centres may add additional cost pressures for councils in terms of providing infrastructure for denser populations. Helen Sui, CEO of Moonee Valley City Council, said that while planning for the changes was in early stages they anticipated additional costs to council for infrastructure and the provision of services:

There are a lot of details that still need to be worked through. But the short answer is there certainly will be a financial challenge, and oftentimes additional revenue from rates is not able to cover the required infrastructure and service needs.¹²⁰

FINDING 12: Victorian councils have faced significant increases in the cost of delivering infrastructure. This is due to a rise in the cost of labour and materials. Increased infrastructure costs constitute a significant financial pressure for growth area councils who are responsible for delivering new infrastructure for their growing communities.

3.5.3 Workforce issues

Councils face a number of financial challenges in relation to their workforce. These include:

- Skills shortages.
- Difficulties providing attractive remuneration for in-demand roles, particularly for regional councils.
- Staff retention at regional councils, including difficulties with housing and a requirement for individual staff to carry out multiple functions.

Skills shortages

The Committee was informed of skills shortages across a number of council functions, particularly in regional areas. Councils reported shortages in:

- town planners¹²¹
- maternal and child health¹²²

¹¹⁹ Municipal Association of Victoria, *Submission 105*, p. 49.

¹²⁰ Helen Sui, Chief Executive Officer, Moonee Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 26.

¹²¹ Indigo Shire Council, *Submission 12*, p. 2.

¹²² Yarriambiack Shire Council, *Submission 45*, p. 4.

- IT workers¹²³
- engineers; and¹²⁴
- childcare workers (for those councils who operate child care centres).¹²⁵

In regional areas these shortages were more acute. For example, Livia Bonazzi, CEO of Murrindindi Shire Council, informed the Committee the Council is facing shortages across a number of positions:

The skills that we are seeking and that we have had issues recruiting for include asset management, engineers, asset engineers, building surveyors and strategic planners. We have now managed to secure a strategic planner. We find that we need to pay way above the banding in order to attract those skills, but sometimes it is also difficult to retain them once they are employed with council – they get experience and then they move away.¹²⁶

Tash Wark, Victorian Branch Secretary of the Australian Services Union, explained that the organisation conducted a survey of its members who worked for councils, answered by 480 people. The outcomes of the survey revealed significant skills shortages:

Other impacts that may not be so visible to the public but are part of the worker's experience are that more than 70 per cent of respondents to our survey reported that there are skills shortages at their council, 92 per cent reported that they often see that when workers leave their organisation the role is not promptly filled, and more than 60 per cent believe that rate capping is limiting their council's ability to offer competitive salaries and benefits.¹²⁷

The MAV provided two case studies on the workforce challenges faced by councils, one in regional Victoria and the other in inner-city Melbourne. These case studies illustrate the different challenges faced by councils in different parts of the state.

¹²³ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 9.

¹²⁴ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

¹²⁵ David Rae, Chief Executive Officer, Corangamite Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 15.

¹²⁶ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence* p. 20.

¹²⁷ Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 15.

Case Study 3.1 Workforce challenges at Wangaratta Rural City Council

Wangaratta Rural City Council (WRCC) faces significant workforce challenges, particularly in recruiting and retaining skilled personnel for critical service areas such as environmental health officers and arborists. These positions are essential for service delivery, yet attracting qualified individuals is difficult due to the constraints of service delivery budgets.

WRCC's doesn't have the size for career-building programs or scholarships to develop these skills internally. Teams do not exist at a scale large enough to support this, turnover is relatively low, and career progression pathways are limited. As a result, larger councils or the private sector can be more attractive employers. Housing shortages further exacerbate recruitment difficulties.

In response, WRCC has had to outsource to ensure service delivery can continue without interruption. WRCC has also implemented bespoke recruitment efforts, including referral services, sign-on bonuses, above-band salary offers, and relocation support. Application processes have been tailored to match the technology capabilities of likely applicants.

Moreover, Wangaratta's workforce is aging at a materially higher rate than the average Australian workforce, adding another layer of complexity to the recruitment and retention challenges. The Council's proactive measures aim to mitigate these issues, but the combination of regional disadvantages and an aging workforce continues to present significant hurdles.

Source: Municipal Association of Victoria, *Submission 105*, p. 30.

Case Study 3.2 Workforce challenges at Yarra City Council

Yarra City Council is facing significant challenges in meeting the growing demand for early childhood education and care. With projections indicating that demand for places will exceed current capacity, and an increasing number of job vacancies across Victoria, the situation is becoming critical.

Inner Melbourne, which includes Yarra, experienced notable employment changes in the five years preceding August 2022. There was a 23% reduction in the employment of educators, compared to a 9% reduction nationally. Early childhood teachers saw a 15% reduction, contrary to a 19% national increase. Interestingly, there was a 50% increase in Childcare Centre Managers, against a 15% national reduction. This disparity reflects the unique challenges faced by the area.

(Continued)

Case Study 3.2 Continued

Yarra City Council has consistently struggled with a vacancy rate of at least 20% in early childhood educator roles over recent years. This shortage, coupled with rising demand for services, has placed immense strain on existing staff and services. The usual attraction and retention strategies have proven insufficient to address these workforce issues.

Source: Municipal Association of Victoria, *Submission 105*, p. 30.

Remuneration and staffing costs

One of the issues impacting on the ability of councils to attract staff is a constrained ability to offer attractive remuneration. This issue is more acute for regional councils who are unable to offer the same salaries as their metropolitan counterparts because of constrained revenue.

This situation was explained by Sarah Johnston, General Manager of Business Excellence at East Gippsland Shire Council, who said that the Council sought to compensate for lower pay by fostering a positive staff culture:

I think the other point for us is that we need good people to deliver. We know we cannot compete from a wages perspective. We have got 600 people across our shire – we know and we are really honest with them. I am sure South Gipps will say exactly the same thing. We cannot compete from a dollars perspective with other councils and with other private businesses. People are working for us because they get other value and passion from living in our area and from working with us.¹²⁸

Indigo Shire Council experienced issues in attracting and keeping skilled and experienced infrastructure staff,¹²⁹ because they struggled to compete with private sector remuneration. The submission explained that ‘local governments often struggle to compete with the private sector in this aspect, impeding their ability to recruit and retain qualified professionals.’¹³⁰

These issues were not only confined to regional councils. Knox City Council explained that rate capping constrained their ability to attract staff in a competitive labour market. Their submission stated:

While local governments have some ability to seek to align staff costs with or close to the rate cap level, this has also had consequences including impacting cost of living for staff and making it more challenging to retain skilled staff in a competitive labour environment.¹³¹

¹²⁸ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 17.

¹²⁹ Indigo Shire Council, *Submission 12*, p. 2.

¹³⁰ Indigo Shire Council, *Submission 12*, p. 2.

¹³¹ Knox City Council, *Submission 47*, p. 7.

Ms Wark from the Australian Services Union, provided data that backed up this sentiment. She explained that local government salaries have declined in real terms since the introduction of rate capping:

Prior to the introduction of rate caps they averaged about 4.7 per cent per year; since the introduction of rate caps they have averaged 2.9 per cent, and local government wages lagged behind CPI in both 2017–18 and 2018–19. In other words, local government workers' spending power has gone backwards in real terms.¹³²

Phillipa Balk, Industrial Officer at the Australian Services Union, said that 'even for the lower paid jobs in local government now there is a big transition to the private workforce because the wages in local government cannot compete because of the restrictions on the ability to negotiate higher outcomes.'¹³³

However, Dean Hurlston from Council Watch believed that councils employ too many administrative staff and high staffing costs were problems of their own making:

If you look at these numbers, and these are the state government numbers that councils supplied themselves, that is the trend of governance staff and governance costs of the council. They have created their own problem. This is not about cost shifting. Of course some of it may be, but the majority cannot be about cost shifting. It is empire building. Let us be clear on what it is.¹³⁴

Mr Hurlston argued that councils had significant scope to reduce costs by cutting staff in middle and upper management roles.¹³⁵ He stated 'there is a manager for every manager, for every contract, for every committee, for every manager. That is the culture that is wrong in councils, and we need to fix that.'¹³⁶

A submitter agreed with this sentiment, saying 'Stop paying CEO's and high-level management in councils. Get some State government department to run it with all the taxes you get already.'¹³⁷

The issue of CEO pay was raised by other submitters. One noted the annual salary of the CEO of the City of Port Phillip in 2022 was around \$410,000, which 'compares favourably with the Prime Minister of Australia who earns \$586,950 per annum.'¹³⁸ Another submitter outlined that the Wellington Shire CEO receives a salary in the range of '\$350,000 to \$359,999 in a region where the median income is around \$45,000.'¹³⁹

¹³² Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 18.

¹³³ Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 20.

¹³⁴ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

¹³⁵ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 73.

¹³⁶ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 73.

¹³⁷ Name withheld, *Submission 6*, p. 1.

¹³⁸ Michael Barrett, *Submission 42*, p. 3.

¹³⁹ John Day, *Submission 114*, p. 3.

Stephen Wall, CEO of Wyndham City Council, defended the level of CEO pay, saying:

I mean, at the end of the day, I am running the best part of a billion-dollar business – a billion-dollar annual turnover. I would say also that when you compare the size of business that I am CEO of to some of the private sector businesses that are comparable, our CEO salaries probably are evident. But look, it is market forced. It is a market-based conversation.¹⁴⁰

The MAV's submission explained 'council CEO remuneration in Victoria is commensurate with the executive salary bands of the Victorian Public Service.'¹⁴¹ They added that 'elected representatives are responsible for CEO employment and set remuneration at a level they determined appropriate to attract and retain suitably qualified candidates.'¹⁴²

FINDING 13: Some councils, particularly in regional areas, find it difficult to offer salaries high enough to attract suitably qualified staff.

During a public hearing, Tammy Smith, CEO of Yarriambiack Shire Council also spoke about employment challenges when she stated:

The next one that I wanted to touch on is renewable energy and mining. Yarriambiack shire has three current renewable energy farms – wind farms – that are currently looking to establish. We have the Warracknabeal Energy Park, which is currently in the technical reference group stage to then proceed onto the EES. We have got the Wilkur Energy Park, which is also a WestWind project, and currently the EES has just been placed on hold.

We also have the RWE Campbells Bridge renewable energy project, which is looking to make a referral to the minister sometime in the latter part of this year for, we believe, an EES. We also have the Donald mineral sands mine, and they are going through the final work plan stage of the moment. What we have found is that rural communities – we have now got these three wind farms looking to establish, and they are coming quite thick and fast at us and similarly with the mining. We are a small rural council with one manager that is also the planner, and we are just not geared up enough from a staffing perspective to be able to deal with the demand that comes from renewable energy and mining. We probably did not realise the extent and level of the expertise that we do need to draw upon to assist us with this process. Obviously we have to be on the technical reference group. We are dealing with a lot of community division, so it is a lot of stakeholder engagement from our councillors but also from staff trying to deal with the community division. We also need to be able to undertake the peer review of the technical documents that come through, so we do not necessarily have the skills and expertise but we have got to be able to buy that in; we need to be able to seek legal advice around some of the contracts or some of the discussions we are having, like

¹⁴⁰ Stephen Wall, Chief Executive Officer, Wyndham City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 11.

¹⁴¹ Municipal Association of Victoria, *Submission 105*, p. 30.

¹⁴² Municipal Association of Victoria, *Submission 105*, p. 30.

with Donald mineral sands; and we need to ensure we are doing our due diligence for our community, and this is coming at a significantly high cost to us as a rural council. So we would be recommending that the government does consider that there is some type of funding pool which we can apply to to assist. There are many rural councils in a similar situation to us, and as these types of issues or these plans are coming up, we could apply for funding to be able to assist with undertaking the review of the technical documentation, because that is where the high cost is going to be borne.¹⁴³

Livia Bonazzi, CEO of Murrundindi Shire Council also said:

We definitely have identified skills gaps. Those skills gaps come both from us being unable to recruit into the roles or us having developed those skills in house and then they are moving out, resigning from council to pursue higher paying opportunities. The skills that we are seeking and that we have had issues recruiting for include asset management, engineers, asset engineers, building surveyors and strategic planners. We have now managed to secure a strategic planner. We find that we need to pay way above the banding in order to attract those skills, but sometimes it is also difficult to retain them once they are employed with council – they get experience and then they move away. We have looked at cadets and providing avenues for students. We have looked at retraining current employees, providing long-term viability and career opportunities. Also, we have partnered up with what we call the Murrindindi Health Network, with the CEOs of the local hospitals, nursing homes and aged care and disability facilities, to try and consolidate. We have got a platform, a consolidated website, to recruit some of the workers not just in the health system but across the whole range to make sure that they have got viable jobs within the region. Even if they are just part-time roles, that through the combination of the different rostering they have full-time roles across the different organisations so they can viably live within the shire.¹⁴⁴

Matthew McPherson, Director of Corporate Services at Campaspe Shire Council said:

Some areas where Campaspe has struggled particularly are engineering and building surveyors as well. It is impossible to get building surveyors into council, I guess partly because of our inability to pay what our private competitors effectively are paying. Plus then there is the reputation of local government. As we heard, if we do not get the financial assistance grants in a year, we do not look like good financial managers, so why would someone want to come to a local government that is going broke? That is a big issue for us.¹⁴⁵

Kathryn Arndt, CEO of the Victorian Local Governance Association said:

For local government to work as effectively as possible it is paramount that local councils can recruit and retain the skilled workforces they need. This requires a huge variety of skills and technical specialisations. Many roles are perpetual challenges for

¹⁴³ Tammy Smith, CEO, Yarriambiack Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, pp. 39–40.

¹⁴⁴ Livia Bonazzi, CEO, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 21.

¹⁴⁵ Matthew Macpherson, Director, Corporate Services, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 24.

councils to fill due to local staff shortages and highly specialised roles that are not paid as well as similar roles in the private sector or other levels of government. Constraints on councils through cost shifting, limited grants and rate capping not only lead to reduced services but also limit pay and conditions for the local government workforce. This can reduce competitiveness and mean less secure jobs in local communities across the state.¹⁴⁶

RECOMMENDATION 6: That the Victorian Government should reinstate the Council Planning Flying Squad for its 48 regional and rural councils, an initiative to provide short-term expertise and assistance to ease the backlog of planning requests. This will enhance the capacity of councils to address planning challenges effectively and ensure timely project approvals.

Retention

Regional councils reported difficulties retaining staff because of housing shortages in regional areas and a requirement of staff to perform multiple roles.

Ms Bonazzi from Murrindindi Shire Council, said her staff have ‘to wear a lot of hats’ and work much harder. She noted that some staff leave for larger councils or the public sector:

But due to the increased cost escalation and due to the cost shifting and increased costs of compliance, our staff really go above and beyond the call of duty. They have to wear multiple hats. They work much harder. They are certainly not in it for the glory or for the money. We lose a lot of good staff – they jump ship to the public sector for much more money or to the larger councils, who can pay them more for fewer hours and fewer headaches.¹⁴⁷

Hindmarsh Shire Council’s submission also said it has a small workforce who are expected to fill many legislative functions.¹⁴⁸ This contributes to a high turnover:

It is our experience that the increasing demands on our employees due to the impact of legislative changes and funding shortages for resources, and additional staff responsibilities contributes significantly to our organisational staff turnover.¹⁴⁹

Indigo Shire Council highlighted the limited housing options for staff, which made it difficult to attract and retain potential candidates:

In the local government sector, particularly in rural regions, attracting and retaining a skilled workforce is further complicated by various factors. These include limited (and

¹⁴⁶ Kathryn Arndt, CEO, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 27.

¹⁴⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 19.

¹⁴⁸ Hindmarsh Shire Council, *Submission 38*, p. 2.

¹⁴⁹ Hindmarsh Shire Council, *Submission 38*, p. 2.

therefore expensive) housing options, competition with the private sector employers, and difficulties in enticing skilled candidates from metropolitan areas. The absence of affordable housing and amenities in rural communities may dissuade potential candidates from considering employment opportunities in local government.¹⁵⁰

Opportunities for training and apprenticeships

Phillipa Balk from the Australian Services Union, referred to the company Citywide, which is owned by the City of Melbourne. It provides services that traditionally are undertaken by council workers, these include asset renewal, landscaping and waste services. These services are contracted to other local councils. Ms Balk noted that the CEO of the organisation earns more than the Premier, while its workers are on enterprise agreements. These agreements mean their pay and conditions are lower than they would otherwise be if they were employed directly by a council.¹⁵¹

She stated that ‘Citywide is probably not the worst provider’ and there are other organisations which provide contract services to councils ‘that would not even be directly on the local government award necessarily but on other awards and generally on less secure forms of employment.’¹⁵²

While such companies may be able to offer services to councils in a more cost-effective or flexible manner than in-house services,¹⁵³ the pay and conditions of their workers may not match those employed directly by a council.

The Committee believes that it is important for councils to prioritise in-house training and apprenticeship opportunities.

Carol Jeffs, CEO of Cardinia Shire Council, said they partnered with other organisations to ensure appropriate training and workforce planning for professions such as engineers, planners and building inspectors:

We do partner up with other organisations to think about training and a pipeline of those skills for engineers, planners, building inspectors and those sorts of things on a sector-wide basis because often there is a factor of education and attraction to the whole sector, not just council by council. We do spend a reasonable amount of time in the attraction and retention space, as well as maintaining a great culture.¹⁵⁴

¹⁵⁰ Indigo Shire Council, *Submission 12*, p. 3.

¹⁵¹ Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 21.

¹⁵² Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 21.

¹⁵³ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, pp. 19–20.

¹⁵⁴ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 37.

Ms Balk commented on whether councils should partner with TAFE's or universities to attract graduates to fill skills shortages:

Certainly I think partnerships are a good idea. We have had a lot of conversations about pathways and succession planning, and we have talked to different councils about those sorts of ideas. But I would just agree in terms of a coordinated approach to it.¹⁵⁵

David Rae, CEO of Corangamite Shire Council, described programs to attract more women into the building surveyor profession. He also said there had been schemes to encourage staff to complete qualifications to take up roles:

There have been some good examples more recently around – I will probably not describe it accurately – getting more women to become building surveyors. That has been a great program. Programs that bring people into non-traditional roles are really welcome. There is a challenge around incentivisation for workforce, particularly in the early years. There have been schemes previously around providing incentives for staff to take up roles and complete a range of educational qualifications, so they are particularly welcome.¹⁵⁶

Ms Bonazzi said that her council has 'looked at cadets and providing avenues for students. We have looked at retraining current employees, providing long-term viability and career opportunities.'¹⁵⁷

Phil Cantillon, CEO of Frankston City Council, told the Committee that his Council prioritised training local, in-house staff over private sector organisations because of their local knowledge and value to the community:

Chair, building surveyors are a great example. Again, they are rare as hen's teeth. Each council will probably end up paying more than the council next to them to access them, but if you do not have a building surveyor you are relying on the private sector, so it is what role do we want to play? Environmental health officers are very important. They provide an incredibly valuable service for the community. They are local, they deal with the local issues and they understand the businesses that are out there, but if we did not have them, that would be outsourced to a private sector organisation.

Well, it might be cheaper, but a lot of times you are looking at a value proposition, which may not necessarily be about cost, it might be a whole range of factors. Maturely in Frankston we look at the value of providing that. We are providing our own building surveyor services and we are providing our own environmental health services because we see the value of that in the community.¹⁵⁸

¹⁵⁵ Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 20.

¹⁵⁶ David Rae, Chief Executive Officer, Corangamite Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 22.

¹⁵⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

¹⁵⁸ Phil Cantillon, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, pp. 19–20.

The Committee believes it is important for councils to prioritise in-house staffing to carry out its functions. It recognises this will not be possible for every council and every function, particularly for regional councils and those with significant revenue constraints. Where possible, councils should look to partner with TAFE's and universities and offer traineeships or apprenticeships in professions with skills shortages.

RECOMMENDATION 7: That where possible, councils should partner with TAFE's and universities and offer traineeships or apprenticeships in professions with skills shortages.

3.5.4 Costs relating to climate change

The Committee heard that climate change has emerged as a significant threat to the financial sustainability of Victorian councils.

The MAV said that worsening extreme weather, driven by climate change, causes serious damage to council infrastructure:

Worsening extreme weather, driven by climate change, is compounding costs for councils. This includes mounting damage to council owned assets, rising insurance premiums and increasing liability risks. Critical council infrastructure including roads, drainage and coastal defences, is being damaged by more frequent and/or severe extreme weather, and state and federal assistance is falling short of what's required.¹⁵⁹

The MAV explained that extreme weather events:

- strain emergency response systems
- necessitate costly repairs
- disrupt council services
- threaten coastal communities and infrastructure; and
- increase the incidence of heat-related illness among vulnerable populations.¹⁶⁰

The costs of climate change and extreme weather events for Victorian councils are enormous. The MAV informed that Yarra Valley City Council spent \$65 million on rehabilitation and recovery works after serious storms in 2021.¹⁶¹

The City of Greater Shepparton has faced skyrocketing insurance premiums for flooding following the floods of 2022:

Since October 2022, Greater Shepparton City Council (GSCC) has faced significant challenges with its flood insurance, as premiums surged by approximately 25% in

¹⁵⁹ Municipal Association of Victoria, *Submission 105*, p. 52.

¹⁶⁰ Municipal Association of Victoria, *Submission 105*, p. 51.

¹⁶¹ Municipal Association of Victoria, *Submission 105*, p. 52.

one year, while coverage for flood damage plummeted from \$20 million to \$2 million. The estimated final cost of insurance claims for 2022 is around \$15 million.¹⁶²

Coastal communities are at risk of inundation and erosion. Bass Coast Shire Council said that the costs associated with inundation on its coastline are huge:

Ultimately coastal inundation is one of the main ones that we see. We see that whole townships effectively from Inverloch along the cape there are experiencing right now that form of inundation, and the costs associated with that will be huge. Even in relation to our roads and managing them, the events that continue to occur have increased the costs of managing those assets.¹⁶³

In Mornington Shire, the costs of works to replace a historic path that had degraded due to erosion were estimated at an early stage to be 'up to \$4m'.¹⁶⁴

Mr Stoermer from Brimbank City Council estimated that 'climate change over the next 10 years will add between \$5 million and \$9 million' to capital works costs. This represents a 10% to 15% increase on their capital works budget.¹⁶⁵ Other metropolitan councils such as Merri-Bek City Council reported spending \$1–2 million per year on capital works such as drainage to adapt to changing conditions.¹⁶⁶

When disasters hit, it's not just financial costs, but personnel who are required to switch from their regular tasks to help the community to recover. Allison Jones, Director at the South Gippsland Shire Council, told the Committee that after a serious storm event this year:

I think we worked out at one point 60 per cent of our organisation was involved in either relief centres or recovery in the weeks after.¹⁶⁷

In some cases, councils also provide the initial outlay for disaster relief, and wait for disaster recovery funding, which can take a significant amount of time. Staff resources are required to administer these claims.¹⁶⁸

The MAV's submission said that nationally 'it has been estimated that a \$10 billion fund is required to support local governments and communities across Australia to address climate change, both in terms of improving the resilience of local communities and reducing emissions.'¹⁶⁹

¹⁶² Municipal Association of Victoria, *Submission 105*, p. 52.

¹⁶³ Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 4.

¹⁶⁴ Municipal Association of Victoria, *Submission 105*, p. 51.

¹⁶⁵ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 4.

¹⁶⁶ Sue Vujcevic, Director Business Transformation, Merri-Bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 65.

¹⁶⁷ Allison Jones, Director Performance and Innovation, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 25.

¹⁶⁸ Tanya Abrahamsson, Manager Financial Strategy, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 18.

¹⁶⁹ Municipal Association of Victoria, *Submission 105*, p. 52.

MAV said that ‘the scale of these costs are already beyond the capacity of individual communities and councils to fund, and they will only increase.’¹⁷⁰ The Victorian Greenhouse Alliance said that other levels of government have looked toward councils to implement climate adaptation programs without adequate support or resourcing.¹⁷¹

The MAV argued that climate must be tackled at a strategic level. This must include either undertaking or funding councils to undertake proactive work to improve resilience, rather than merely responding to damage after it occurs.¹⁷²

FINDING 14: Extreme weather events driven by climate change are a significant cost pressure on Victorian councils. Among other things, this includes:

- disaster relief efforts, including staff resourcing
- insurance premiums
- the repair of damaged infrastructure; and
- the proactive maintenance or upgrade of infrastructure to improve climate resilience.

3.6 Exiting services

Declining revenue and increasing expenses have led some councils to cut back on the services they provide. Councils reported that the primary service they have chosen to exit is the provision of aged care. This is in part due to Commonwealth reforms that have prioritised care at home. However, some stakeholders had concerns about the level of service under this new model. The Committee was also informed that some councils had merged the provision of animal shelters.

Kat Panjari, Director of Strategic Foresight and Partnerships at MAV, explained to the Committee that as the financial position of councils diminish they will have to make difficult decisions on which services to cut:

There will have to be those hard decisions made about what local government ceases to do. Councils do not want to have to make those decisions, but they just will not be able to fund those ongoing services that are so important to community – the libraries, the kindergartens; the road network will not be as renewed as it could and should be. All of those touchpoints that you see will be diminished, and it will end up with greater inequity in communities around who has access to what service depending on the council’s ability to fund that.¹⁷³

¹⁷⁰ Municipal Association of Victoria, *Submission 105*, p. 51.

¹⁷¹ Victorian Greenhouse Alliance, *Submission 34*, p. 2.

¹⁷² Municipal Association of Victoria, *Submission 105*, p. 51.

¹⁷³ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 22.

MAV's submission provided data from a study conducted by the Australian Local Government Association, which identified 16 council functions that are at risk when council finances become precarious. The services are:

- Response to climate change
- Provision of recreation and open space activities
- Provision of community events and festivals
- Library and educational services
- Equitable access to services
- Public safety
- Promoting public health
- Additional support for at-risk populations
- Protecting communities from natural disasters
- Road maintenance
- Footpaths and cyclepaths
- Stormwater drainage.¹⁷⁴

Carrol Jeffs, CEO of Cardinia Shire Council, described her Council's finances as in a situation of 'managed decline'. She explained the order in which the Shire might look to cut services in the coming years as follows:

There are services that we provide which are not mandatory, if you like, but do really support our community. And I am not talking about large teams; sometimes they are a team of one, two or three providing services to our older persons, providing services to our homeless, housing services and environmental services. Over the next four years some of those will have to be rethought and may not be able to be provided. Then we could start thinking about some of those services that are delivered in partnership with the state, such as maternal and child health, kindergarten services and school crossing supervision, and after that it will be thinking about whether or not we can maintain our assets. So for me that is the order of the managed decline.¹⁷⁵

The MAV said that currently a number of councils are beginning to cease the provision of aged care services, 'as their overall financial position has meant they cannot carry the risk of an uncertain funding model.'¹⁷⁶ In addition she said that councils were withdrawing from early years services 'due to the escalating infrastructure costs and workforce shortages.'¹⁷⁷

¹⁷⁴ Municipal Association of Victoria, *Submission 105*, p. 32.

¹⁷⁵ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 28.

¹⁷⁶ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 15.

¹⁷⁷ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 15.

3.6.1 Aged care

The Committee was informed a number of councils have divested in aged care in recent years. The impact of this has been most keenly felt in regional Victoria, where councils may be a provider of last resort, forcing residents to travel farther to access services.

The Essential Services Commission, in their *Outcomes of Rate Capping report*, state that most councils in recent years have reduced or stopped the provision of the service ‘in response to Australian Government reforms in the area (for example, the introduction of the National Disability Insurance Scheme and the Commonwealth Home Support Programme).’¹⁷⁸ They note that large shire councils divested on average the highest in aged care services, and that ‘this will have an impact on rural and regional communities with little choice of service providers’.¹⁷⁹

This is illustrated by the evidence from Bass Coast Shire Council, who no longer provide aged care home services because the Commonwealth Government reforms had made the service provision more expensive:

Council ceased the provision of aged and home care services in 2020. This change is due to the cost impact on councils of the Commonwealth’s aged care reforms including the introduction of a consumer directed care and choice model. This increased the cost of providing home and community care services.¹⁸⁰

Similarly, Corangamite Shire Council ceased the provision of in-home care services to residents, and now provides aged care navigation services:

Corangamite Shire wound up in-home care services to residents, instead providing sector navigation services to residents in the form of assistance with ‘My Aged Care’ applications and engagement with private service providers. Changes in this space has resulted in reduced service delivery and workforce reductions, which negatively impact communities.¹⁸¹

Mr Stoermer from Brimbank City Council explained that the Council had stopped providing aged care services because it was determined that the services could be provided more efficiently by the private sector. He said whilst it was difficult to stop the service, the Council communicated effectively with the community and they understood that the service would still be delivered, but by other means.¹⁸²

¹⁷⁸ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 47.

¹⁷⁹ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 47.

¹⁸⁰ Bass Coast Shire, *Submission 16*, p. 2.

¹⁸¹ Corangamite Shire Council, *Submission 102*, p. 2.

¹⁸² Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 4.

Matt Hyde, CEO of Wodonga City Council, said that in a revenue constrained environment, it could make sense for councils to divest service provision to more efficient non-government providers:

It may mean that with the government's oversight and costings for local government it is much more expensive for us to run a service, whereas a not-for-profit community group can still offer that service that is very important to our community at a much more efficient rate.¹⁸³

However, Ms Bonazzi from Murrindindi Shire Council, believed the private sector delivered a sub optimal service because it only took on less complex clients:

Our community is now experiencing a suboptimal outcome because we observe that the private sector cherrypicks the most cost-convenient – the least costly – clients to serve, and usually government and local government are the places of last resort. We also have to pick up the pieces. The community is coming to council for advocacy and showing us how people are dying waiting for home care services. There is a failure in the system, and these things will drive a wedge and erode the social fabric of our community. Already they are underserved, and they are just observing fewer and fewer services and less and less support.¹⁸⁴

Christine Stewart, from Indigo Community Voice, also described how the provision of aged care services in her municipality had declined following the closure of a council-run facility:

Council did a really good job. The staff were well paid and looked after. It was outsourced to Alpine Health, who have struggled ever since in providing the Commonwealth home support program, which is the basic initial thing before you get a home care package. It has been a disaster. It really has. I have got a lot of friends who are under that. The federal home care package – you can wait up to two years. They have made it harder and harder for people to get.¹⁸⁵

Ms Panjari explained that councils are often a service provider of last resort, particularly in regional areas. Giving the example of childcare, she said if services are discontinued and no one steps in, then people have to travel to access services, which affects productivity:

In many cases childcare centres have closed down and there just is not that service, and those communities are having to travel outside of their area to access that service. That has national implications around productivity. In aged care we are seeing that play out now, that people are not accessing local services.¹⁸⁶

¹⁸³ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 47.

¹⁸⁴ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 17.

¹⁸⁵ Christine Stewart, Committee Member, Indigo Community Voice, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 41.

¹⁸⁶ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 22.

3.6.2 Animal services

The Committee was informed that some regional councils have decided to close their pound services and seek shared services arrangements with larger regional centres. This has resulted in residents travelling longer distances to collect impounded animals and in one case, an overcrowded facility which councils workers report has impacted their mental health.

Sarah Brindley from Wangaratta Rural City Council, said that the RSPCA, which ran its facility in Wangaratta, decided it was unable to continue due to cost pressures. The council decided to close the service and seek a partnership with Albury City Council, which hosts a more modern facility. Ms Brindley explained the outcome of the move:

What that means to our community is that when animals are recovered and held in the pound we make more effort to return them initially, but if they cannot be quickly returned to an owner – so if they are not microchipped and identifiable – we then drive them to Albury and they go to the pound there and the community member would have to go to Albury to collect their animal.¹⁸⁷

Similarly, Wodonga City Council noted that it faced an unfeasible expense in upgrading its facilities to RSPCA compliance. Matt Hyde, CEO of the Council, said it has sought shared services with Albury City Council.¹⁸⁸

This change has led to residents having to travel longer distances to collect their animals if they are held in the pound.

Phillipa Balk, the Australian Services Union, was asked about the closure of an animal shelter in the Campaspe Shire Council municipality. She said council workers experienced distress and psychosocial impacts from dealing with higher numbers of animals unable to be re-homed. She also described poor working conditions at a facility in Shepparton, where services are consistently full, with hot, inclement, difficult conditions.¹⁸⁹

Ms Balk said there is a petition with over 2000 signatures calling for animal shelter services in the area to stay open. She believed that a closure of services may result in a higher euthanasia rate, and that the impact on council staff who have to carry out these tasks is profound.¹⁹⁰

These issues bring to light the fact that council service closures or re-organisation can have impacts on staff, and in this case on animal welfare.

¹⁸⁷ Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 50.

¹⁸⁸ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 50.

¹⁸⁹ Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 22.

¹⁹⁰ Phillipa Balk, Industrial Officer, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 22.

3.7 What constitutes financial sustainability?

This Chapter has dealt with an analysis of the trends in revenue and expenditure of councils, and the particular cost pressures they face.

Councils report that the overall trend of rising expenditure and constrained revenue is a threat to their long-term financial sustainability. However, the Committee heard that local government regulatory agencies take into account a number of different indicators when assessing the financial health of Victorian local councils. FinPro notes this means that ‘varying interpretations can be made on the financial position of local government.’¹⁹¹ And ‘there is no established definition for financial sustainability.’¹⁹²

For councils, this means that Local Government Victoria and the Essential Services Commission, the bodies responsible for setting the majority council revenue, and the Victorian Auditor General’s Office, who audits the financial position of councils, do not have an established and consistent measure for financial sustainability.¹⁹³

FinPro are particularly concerned there is no definition because the Essential Services Commission is required to make an assessment on the financial sustainability of local councils before it sets the rate cap.

Due to the lack in an assessment framework for financial sustainability of local government, varying interpretations can be made on the financial position of local government. This is particularly concerning to FinPro given an assessment of local government sustainability is required by the ESC when providing advice to the Minister when setting the cap on the annual increase in average rates, whether an adjustment is required and whether to set a uniform cap or not.¹⁹⁴

FinPro says the lack of a sustainability framework results in:

- Inconsistency in the lead sustainability indicators from one year to the next, as evidenced by emphasis of the adjusted underlying result in the analysis of 2022–23 budgets and reliance on the “accounting operating surplus” in the analysis of 2023–24 council budgets.
- No basis for assessing the risk of each indicator to the financial sustainability of local government.
- No consideration of different thresholds or targets for each indicator for the different cohorts of councils.¹⁹⁵

¹⁹¹ FinPro, *Submission 11c*, p. 3.

¹⁹² FinPro, *Submission 11c*, p. 3.

¹⁹³ FinPro, *Submission 11c*, p. 3.

¹⁹⁴ FinPro, *Submission 11c*, p. 3.

¹⁹⁵ FinPro, *Submission 11c*, p. 3.

The following Sections will assess the different financial metrics reported by Government agencies and councils as indicators of financial sustainability. These include:

- net operating position, or accounting position
- adjusted underlying result; and
- cash reserves and unrestricted cash.

It ends with a discussion about a risk-based approach to council financial sustainability that would provide a shared basis for Government agencies to assess the financial health of councils and make more informed decisions on revenue.

3.7.1 Net operating position

Net operating position refers to the difference between revenue brought in by councils, including in rates, grants, fees and charges and the amount they spend. Whether a council has a long-term surplus or deficit is an indicator of financial sustainability.

Mike Gooley, Executive Director at Local Government Victoria, told the Committee that Local Government Victoria and the Essential Services Commission use the Australian accounting standards as a framework for assessing how councils are performing:

Effectively the Australian accounting standards provide a framework for reporting how businesses run. They are used as the framework for understanding how councils are performing, and that is the framework that the Auditor-General brings and similarly the ESC. You are talking to them later today, so that is probably a question for them about how they see financial sustainability. But from our perspective, it is as easy or as difficult as reading the balance sheet and just seeing where the council is at.¹⁹⁶

The Victorian Auditor General's assessment of council finances for 2022–23 reports 'Councils' balance sheets remain strong and over the short term their financial health is fine.' The sector as a whole recorded a surplus of \$2.394 billion.¹⁹⁷ They note that this result is skewed by the early provision of 100% of the following year's Federal Financial Assistance Grants in advance.¹⁹⁸

The Victorian Auditor General's Office also looks at the sector's adjusted underlying result, assets and liabilities, cash reserves and asset renewal metrics.¹⁹⁹

The Committee does not object to the measures used by the Victorian Auditor General's Office to monitor the financial sustainability of Victorian councils.

¹⁹⁶ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

¹⁹⁷ Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 11.

¹⁹⁸ Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 11.

¹⁹⁹ Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 16.

However, the Committee heard from councils that not enough attention was paid by regulators to underlying result and unrestricted cash, which they claim are more reliable indicators financial sustainability.

The MAV explained:

There are serious risks to the financial sustainability of Victorian councils. Increasingly, councils report underlying deficits, reductions in unrestricted cash and working capital, and deteriorating asset renewal rates.

This is made more concerning by the fact that State-based reporting does not pick up on these factors. Several decisions in the way the state monitors financial sustainability obfuscate underlying problems.

Accounting surplus rather than underlying surplus is frequently used. Total cash is also referred to rather than unrestricted cash. In both cases these are significantly distorted by money that is ringfenced from operational uses, such as developer contributions.²⁰⁰

Glen Eira City Council's submission agreed, stating that the accounting operating surplus is skewed by a number of factors and its use as a sector wide assessment is not helpful:

An accounting operating surplus is not a profit or true surplus and is skewed by a number of factors including the pre-payment of grants, restricted reserves, asset valuations and pace of capital works delivery. This will be different for each council, and it is therefore not helpful to refer to whole of sector rolled-up figures.²⁰¹

Andrew Cooney, CEO of the City of Greater Bendigo, was also dismissive of the use of balance sheets to assess the financial position of councils:

It is very easy from afar to look at a council's balance sheet and say, 'You've got lots of cash; I don't know what you're complaining about. You've got low borrowings; I don't know what you're complaining about. You haven't applied for a rate cap variation, so you must be sweet.' But with all those things there is no community interest and there is no political will to go and apply for a rate cap variation, borrow a heap of money or shut a facility.²⁰²

3.7.2 Adjusted underlying result

One of the key reasons councils explained that net operating position was an unreliable indicator of financial health, is because it includes grant income. While grant income is a major plank of council income, they consider it unreliable and variable

²⁰⁰ Municipal Association of Victoria, *Submission 105*, p. 13.

²⁰¹ Glen Eira City Council, *Submission 29*, p. 11.

²⁰² Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 32.

because it is reliant on external organisations and may be tied to certain projects.²⁰³ This was explained by Murrindindi shire, who said:

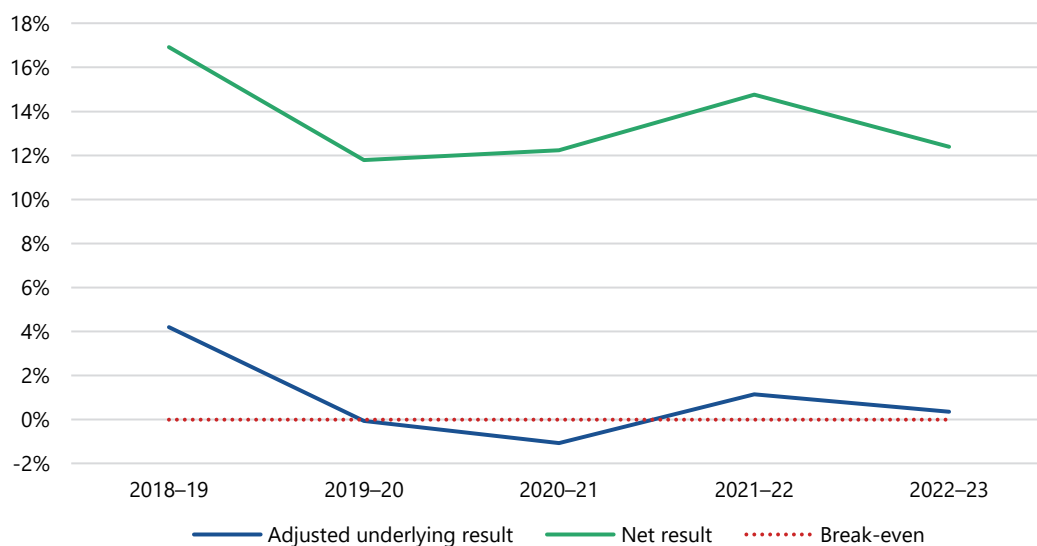
Councils financial results in recent years reveal operating surpluses, which, at face value, suggest that it has capacity to generate sufficient funds to absorb these cost increases, meet its operating needs, with provision for future growth.

These operating surpluses, however, are largely driven by capital grant income, and as the corresponding capital expenditure associated with these grants is not included in the operating result, these grants distort the true financial picture. When these grants are excluded, Council operates with an underlying deficit which is increasing over time. This is increasingly eroding Council's cash and financial position and its capacity to meet the current and future service and infrastructure needs of our local communities.²⁰⁴

As a result, councils informed the Committee that a better metric was to exclude grants in a council's revenue calculation and only use 'own source income', which is income generated by councils in the form of rates and charges. This metric is called the adjusted underlying result.²⁰⁵

The Victorian Auditor General Office's most recent audit provided a graph (Figure 3.23) which shows the difference between the net operating position recorded by councils and the adjusted underlying result. It shows that councils have had an adjusted underlying deficit or marginal surplus for a number of years.

Figure 3.23 Council net operating position and adjusted underlying result, 2018–19 to 2022–23



Source: Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 15.

²⁰³ Murrindindi Shire Council, *Submission 103*, p. 4.

²⁰⁴ Murrindindi Shire Council, *Submission 103*, p. 4.

²⁰⁵ FinPro, *Submission 11c*, p. 5.

The report revealed a concerning 37 out of 79 councils reported an adjusted underlying deficit in the last financial year.²⁰⁶

FinPro provided an overview of the adjusted underlying result ratio from since rate capping was introduced (Figure 3.24 below). It shows a significant deterioration in finances during the COVID-19 Pandemic, followed by a slight recovery.

Figure 3.24 Adjusted underlying result ratio 2015–16 to 2024–25



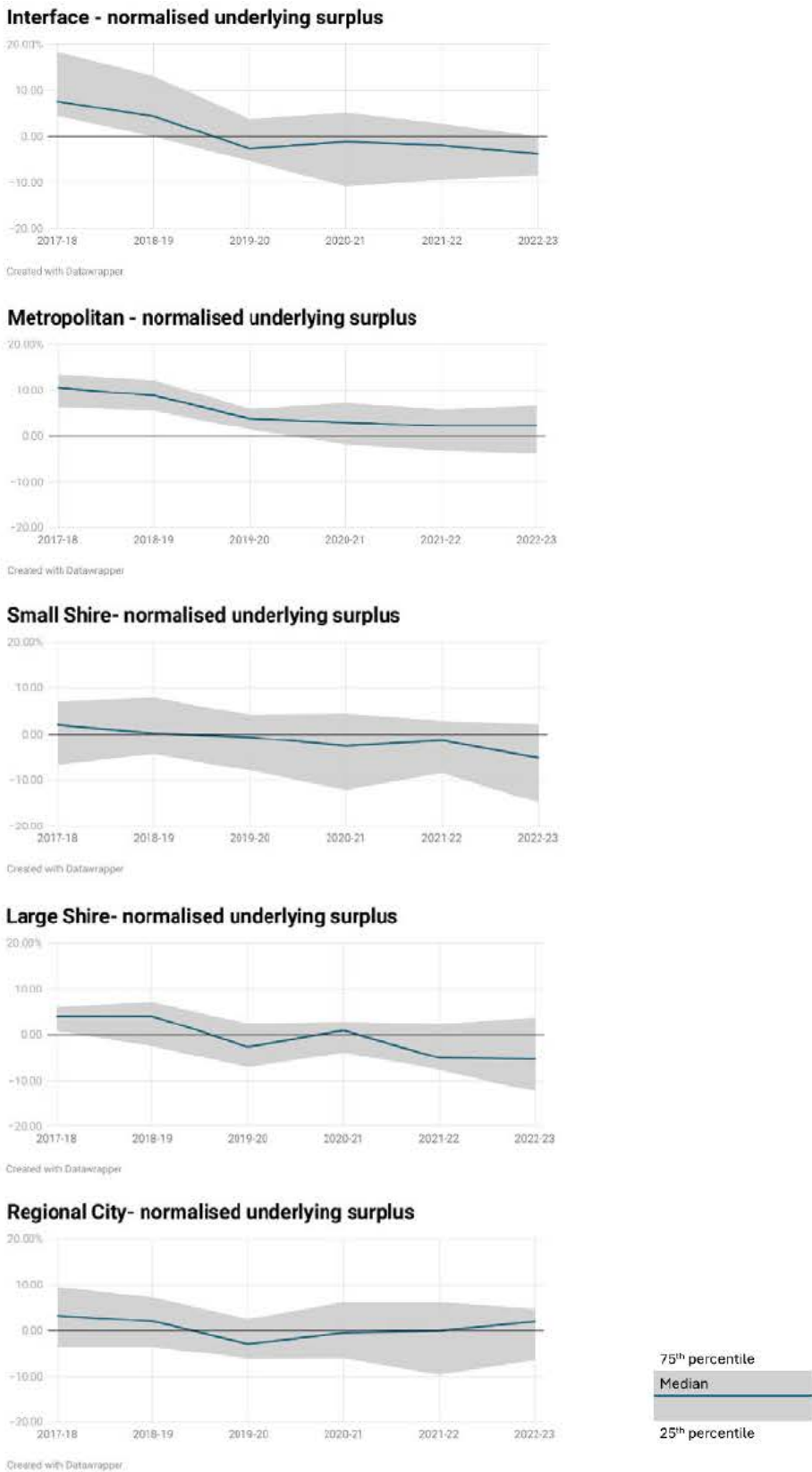
Source: FinPro, *Submission 11c*, p. 10.

The MAV also provided a graph of the underlying result of each council type. This includes an average for each type and an indication of the variability between councils in each group, showing the position of the 75th and 25th percentiles. Like the data from FinPro, it shows an ongoing decline in operating position for each group. However, metropolitan and regional cities maintain a position where they are able to fund their overall expenditure from own source revenue.²⁰⁷

²⁰⁶ Victorian Auditor General's Office, *Results of 2022–23 Audits: Local Government*, p. 15.

²⁰⁷ Municipal Association of Victoria, *Submission 105*, p. 14.

Figure 3.25 Adjusted underlying result for each council group 2017-18 to 2022-23



Source: Municipal Association of Victoria, *Submission 105*, p. 14.

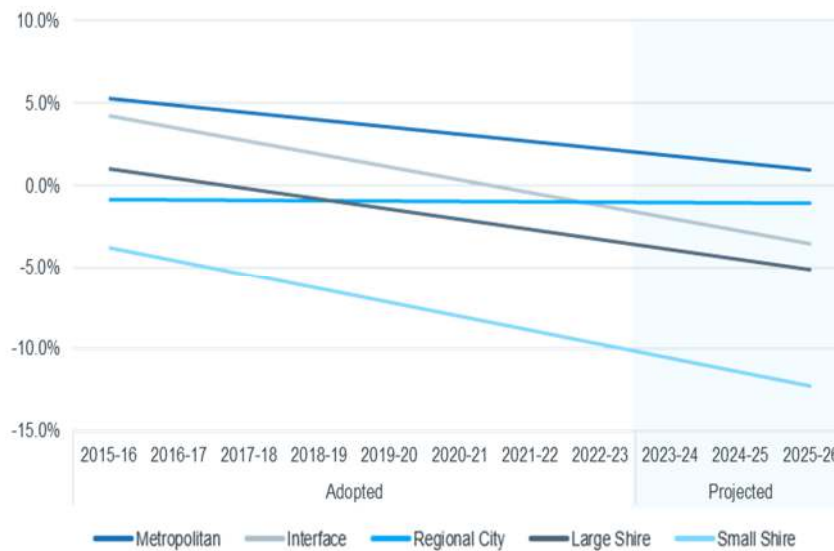
Individual councils engaged the Committee about their underlying results. Sarah Brindley, Wangaratta Rural City Council, said ‘we have as a council delivered an average annual adjusted underlying deficit of \$1.3 million over the last 10 years, and clearly that is not sustainable.’²⁰⁸

Kim Jaensch, Frankston City Council, said the Council had moved from an underlying surplus and the situation was worsening:

The ongoing decline in council's underlying financial results. Council has moved from a financial outcome of recording underlying surplus results to now a position where it is annually in deficit and, with this result, continuing to worsen.²⁰⁹

FinPro provided the Committee its assessment of the trendlines of the underlying results for the council groups from 2015–16, through to projections for 2025–26. It noted the declining trend in council groups.

Figure 3.26 Trendlines in adjusted underlying results, 2015–16 to 2025–26 (projected)



Source: FinPro, *Submission 11c*, p. 10.

Local Government Victoria conducts an analysis of the adopted budgets of Victorian councils each year. The analysis for the year 2023–24 is a summary. However, for the 2022–23 financial year, the agency included analysis of the adjusted underlying result. It said that year ‘overall, 55 out of 79 councils are projecting an adjusted underlying operating deficit.’²¹⁰

²⁰⁸ Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 45.

²⁰⁹ Kim Jaensch, Director Corporate and Commercial Services, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 14.

²¹⁰ Local Government Victoria, *Department of Jobs, Precincts and Regions Analysis of the 2022–23 adopted budgets of Victorian councils*, p. 30.

The analysis went on to say that ‘this measure provides a truer picture of financial health of a local government.’...’ since it excludes items that may fluctuate significantly or not be consistently received’.²¹¹ It concluded ‘to remain financially sustainable, councils ideally need to record small adjusted underlying surpluses over the medium to long term.’²¹²

The Committee agrees with this assessment.

FINDING 15: In the context of financial reporting, adjusted underlying results provide a truer picture of the financial health of councils than the net operating position, because it excludes grants that may fluctuate or be inconsistent. To remain financially sustainable, councils should record adjusted underlying surpluses over the medium to long term.

3.7.3 Cash reserves and unrestricted cash

The cash reserves of councils is considered by regulators as a measure of financial health. However, councils informed the Committee that assessing a council’s total cash reserves is not a reliable indicator. This is because cash reserves are often hypothecated to other tasks. This includes developer contributions and employee entitlements.

The Victorian Auditor-General Office’s *2022–23 Results of Local Government Audits* gave a positive view of the sector’s cash holdings. It said, ‘the sector’s average liquidity ratio remained positive at 2.43, which is consistent with the prior year. This means the sector’s cash and other liquid assets are more than double its short-term liabilities’.²¹³

The Essential Services Commission, in its advice to the Minister for Local Government on the rate cap for 2024–25, painted a more pessimistic picture of the situation. It said ‘in recent years, councils have been utilizing their cash reserves to sustain service levels as their own-source revenue was affected by low average rate increases relative to actual inflation’.²¹⁴ They said that council’s cash reserves are still healthy, but they are deteriorating over time:

Between 2018–19 and 2023–24, councils’ cash reserves, as represented by the working capital ratio, decreased from an average of 320 per cent to 220 per cent. While still in a high range overall, the number of councils approaching a 100 per cent working capital ratio has increased.²¹⁵

²¹¹ Local Government Victoria, *Department of Jobs, Precincts and Regions Analysis of the 2022–23 adopted budgets of Victorian councils*, p. 4.

²¹² Local Government Victoria, *Department of Jobs, Precincts and Regions Analysis of the 2022–23 adopted budgets of Victorian councils*, p. 30.

²¹³ Victorian Auditor General’s Office, *Results of 2022–23 Audits: Local Government*, p. 16.

²¹⁴ Essential Services Commission, *Advice on the rate cap for 2024–25*, p. 5.

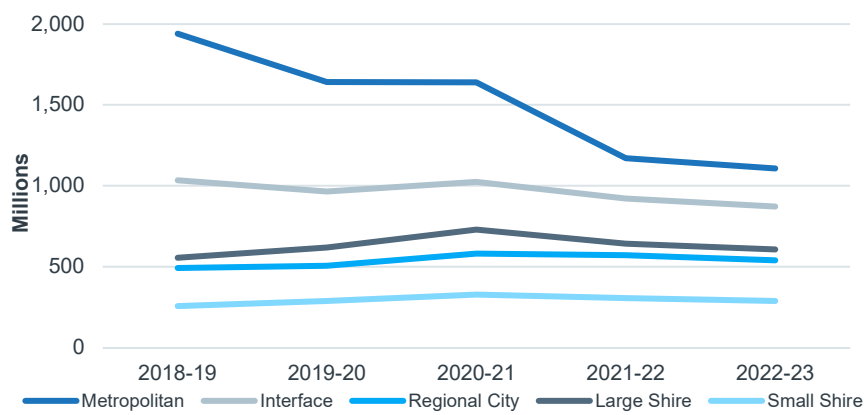
²¹⁵ Essential Services Commission, *Advice on the rate cap for 2024–25*, p. 5.

FinPro say that a better indication of financial health should be the amount of funds that is not committed to maintaining current council assets or services:

A key indicator of whether a council is sustainable is not total cash held, nor the trend of total cash held, but rather the ability to maintain adequate unrestricted cash. That is, the balance of cash after all other commitments and obligations to “cash back” reserves is considered. Unless all financial commitments and obligations are identified and reported, the cash position of a council can be misleading.²¹⁶

Their submission painted a picture of deteriorating unrestricted cash in the sector, as shown in Figure 3.27.

Figure 3.27 Total unrestricted cash and other assets, 2018–19 to 2022–23



Source: FinPro, *Submission 11c*, p. 13.

Glen Eira City Council agreed with this sentiment, explaining that the perception that councils hold an abundance of total cash is false, because little of it is unrestricted cash:

The perception that councils hold an abundance of total cash is false. Much of this cash is earmarked for specific purposes, leaving little room for discretionary spending. Funds are tied up in commitments like infrastructure projects. The dwindling pool of 'unrestricted' cash, available for broader allocation, underscores the tightening financial constraints faced by councils.²¹⁷

The Loddon Campaspe group of Councils, representing nine councils in the Loddon-Campaspe region, reported dwindling total cash and unrestricted cash, with some alarmingly close to insolvency:

Effectively, less than 18 per cent of the councils' cash holdings in the group is unrestricted. Furthermore, three councils project they will have negative unrestricted cashflow by June 2025 and one further council has unrestricted cash valued at less than

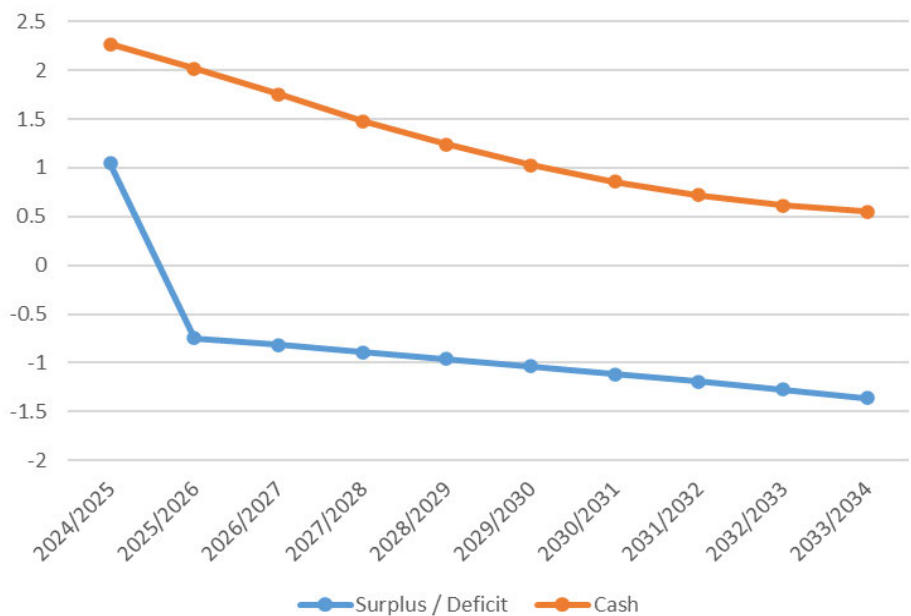
²¹⁶ FinPro, *Submission 11c*, p. ii.

²¹⁷ Glen Eira City Council, *Submission 29*, p. 11.

one fortnight's payroll. To make the picture more concerning, if employee entitlements are included (annual leave and long service leave), across the nine councils the group would have negative \$3.6M in unrestricted cash.²¹⁸

The Rural City of Wangaratta said it had been using its cash reserves to 'fund increasing operational costs (e.g. workers compensation insurance, information technology costs etc) and delivery of infrastructure projects.'²¹⁹ While Hindmarsh Shire Council provided a graph illustrating their long-term cashflow, (Figure 3.28) which they said 'paints a grim picture of the future for Hindmarsh with continual deficits and diminishing cash'.²²⁰

Figure 3.28 Hindmarsh Shire Council's long term financial position



Source: Hindmarsh Shire Council, *Submission 38*, p. 6.

Mr Thomas from FinPro said of the cash reserves of the sector:

Importantly to note for the committee, it is across all council cohorts. It is not just in small rural or large rural or regional cities. All council cohorts since 2016–17 have seen a deteriorating trend in their underlying surpluses. There has been a deterioration in the unrestricted cash position across the local government sector, and the ESC, the Essential Services Commission, also provided that advice to the minister.²²¹

FINDING 16: The cash reserves held by Victoria's local government sector as a whole are currently adequate, but are showing signs of ongoing deterioration.

²¹⁸ Loddon Campaspe, *Submission 77*, pp. 3–4.

²¹⁹ Rural City of Wangaratta, *Submission 46*, p. 7.

²²⁰ Hindmarsh Shire Council, *Submission 38*, p. 6.

²²¹ Bradley Thomas, President, Local Government Financial Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 38.

3.7.4 A risk based approach to determining financial sustainability

Given the financial challenges faced across the board, councils expressed a willingness to define what constitutes financial sustainability. This might give regulators a better benchmark to assess the revenue needs of councils so they can continue to provide much needed services and infrastructure.

Mike Gooley, CEO of Local Government Victoria, was asked if there needs to be a common definition of financial sustainability. He replied:

Certainly from a policy perspective it is work that we are doing across the nation, working with other jurisdictions to determine what financial sustainability looks like. It is fair to say that local governments are very asset heavy businesses, and that obviously changes. They are quite different from ordinary businesses, if you like, in terms of service providers, because they have to do that as well. But they have the responsibilities for them under legislation. Those sorts of moving parts are important to take into consideration.²²²

FinPro suggests the definition should be a 'demonstrated capability to deliver on required levels of service while maintaining fiscal capital and infrastructure capital over the long term.'²²³ They explained:

Maintaining fiscal capital refers to the capacity of the council over the longer term to maintain access to sufficient cash – produced and used through operations, investments and financing activities – including maintaining adequate reserves for future liabilities. Maintaining infrastructure capital refers to the capacity of the council to continue to provide assets over the long term that are adequate to provide the required levels of service to the community.²²⁴

FinPro advocated for working with councils to flesh out what a risk-based assessment would look like:

We would push for a co-design working with the sector in terms of establishing a risk-based assessment framework for financial sustainability, and not a one-size-fits-all – how does it work across all the council cohorts? It has been successfully undertaken in a number of other states.²²⁵

Carol Jeffs, CEO of Cardinia Shire Council, also advocated for a risk based framework for financial sustainability. She believed it should take into account the situation of different council groups:

We think there is a need for a risk-based assessment framework for financial sustainability with different criteria for different council cohorts. There are specific

²²² Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 7–8.

²²³ FinPro, *Submission 11c*, p. 3.

²²⁴ FinPro, *Submission 11c*, p. 3.

²²⁵ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 39.

challenges and responsibilities of local government, particularly for outer metro growth areas, that impact on sustainability, and these include providing services and facilities for large catchments.²²⁶

The City of Greater Bendigo's submission said that without such a framework there would be room for different interpretations of financial sustainability:

Without a risk-based assessment framework, there is room for different interpretations of whether local government financial sustainability is sound or not. Decisions, such as those made by the Essential Services Commission (ESC) in recommending the rate cap level, may not be made with sufficient assessment and analysis.²²⁷

Bradley Thomas, President of FinPro, noted that Queensland has recently had recently engaged with its local government sector to establish a sustainability framework:

Queensland has done one really recently, so I think that would be a good starting point. South Australia has got some examples as well. I think they would need to be nuanced to Victoria – local government is different between states – but it is a good starting point.²²⁸

The Queensland *Sustainability Framework for Queensland Local Government*, released in May 2024, outlines five financial and non-financial factors that influence government local government sustainability. They are

1. Operating Environment - Impact of the external environment on councils and their capacity to respond effectively.
2. Finances - Performance of councils in managing their finances over the long term.
3. Assets - Performance of councils in managing assets over the long term.
4. Governance - Performance of councils in understanding and managing risks and embedding effective governance practices.
5. Compliance - Performance of councils in meeting legislative requirements.²²⁹

The Committee agrees that Local Government Victoria should work with the sector including councils and peak bodies to establish a similar sustainability framework for Victorian Local Government. Such a framework should be risk based and incorporate different criteria for different council groups. The financial indicators that councils have told the Committee are reliable indicators for their financial health should also be considered. This includes adjusted underlying result and unrestricted cash, as well as traditional financial indicators outlined in the Local Government Performance Reporting Framework.

²²⁶ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 26.

²²⁷ City of Greater Bendigo, *Submission 95*, p. 3.

²²⁸ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 48.

²²⁹ Queensland Government, Department of Housing, Local Government, Planning and Public Works, *Sustainability Framework for Queensland Local Government*, 2024, p. 16.

FINDING 17: There is no established and consistent measure for the financial sustainability of councils, leading to challenges in assessing and comparing their long-term financial health across the sector.

FINDING 18: The Auditor General's annual report on local government financial position forms a valuable baseline for local government viability.

RECOMMENDATION 8: That the Victorian Government work with the sector, including councils and peak bodies, to establish a local government sustainability framework. The elements of this framework should incorporate:

- a risk-based approach to financial sustainability
- different financial criteria for different council groups; and
- the inclusion of adjusted underlying result, unrestricted cash, and asset renewal indicators in addition to the financial indicators outlined in the Local Government Performance Reporting framework.

3.8 The long-term trend in financial sustainability

This Chapter has discussed some of the key elements that contribute to the long term financial sustainability of Victorian councils. They include:

- council expenditure rising faster than revenue
- limited options to grow revenue; and
- cost pressures including asset renewal, infrastructure delivery, workforce issues and climate change.

Chapter 6 of this report will deal with another key cost pressure: cost shifting.

Councils reported that the result of these factors is a long-term challenge to their financial sustainability, which will lead to reduced services and failing infrastructure.

Regulators, while noting some deteriorating financial indicators are positive about the overall current situation of council finances.

- Local Government Victoria in its *2023–24 Council Budgets Summary* says ‘overall council finances remain sound.’²³⁰
- The Essential Services Commission, in its most recent *Outcomes* report says ‘in general, the financial health of the sector remained sound’.²³¹

²³⁰ Local Government Victoria, *2023–24 Council Budgets Summary*, 2024, p. 3.

²³¹ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. iv.

- The Victorian Auditor General's Office, in its *Results of 2022–23 Audits: Local Government* report says 'councils' balance sheets remain strong and over the short term their financial health is fine. They face longer-term challenges that require sound financial planning and management to maintain this financial health.²³²

Marcus Crudden, Essential Services Commission, when asked if councils are in good financial health, stated:

I think our overall view is probably yes when we take it sector wide, but as noted, between the various sectors, I think the majority of problems probably occur in the large and small shires. I think they probably face a range of challenges – you know, the lower population densities and even the socio-economic demographic characteristics of some of the communities they serve ...

... I think the larger councils and regional cities are probably in strong positions. I think the interface councils just have some challenges at times from the rate of growth, which is probably more a structural thing – they may have a very large capital spend in a short space of time.²³³

When asked how he thought the position of councils would look in 5 years time, Mr Crudden said 'there were some deteriorations between our last reports,'²³⁴ referring to the Essential Service's Commission's *Outcomes of Rate Capping* reports. He noted that the balance sheets of some councils were impacted by the COVID-19 Pandemic, and that it wasn't just rate capping that was affecting their position.²³⁵

Mr Gooley from Local Government Victoria, said the financial sustainability of the sector is different, depending on council type, and cant be generalised:

Going back to Mr Morrison's point, though, really clearly there is a significant difference between the type – whether you are a metro, an interface, a rural or a regional council – and the flexibility and ability certainly for regional and rural councils is much more constrained. So the pressures in terms of financial sustainability are different across the different councils. It is a much more nuanced view than either 'We're all doomed' or 'The sector's fine'. It is actually about careful management.²³⁶

This assessment is in contrast to what was reported to the Committee by councils. Kim Jaensch, CFO at Frankston City Council reported a bleak long term financial situation:

The picture portrayed in our council's long-term financial plan is even more bleak. The economic outlook along with the ongoing financial sustainability challenges in

²³² Victorian Auditor General's Office, *Results of 2022–23 Audits Local Government*, p. 10.

²³³ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 32.

²³⁴ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 33.

²³⁵ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 33.

²³⁶ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 9.

the sector mean that council will no longer be financially sustainable into the future. To say that this council along with many others have reached their tipping point would be an understatement.²³⁷

Ms Bonazzi from Murrindindi Shire, saw a reduction in services and a deterioration of infrastructure over a 10 year horizon:

Council is not broke. It is not going out of business tomorrow, but we are looking at the medium and long term. When we look at the 10-year horizon, we cannot continue to sustain operating deficits. We have obligations under different Acts and responsibilities that we are not suitably funded to discharge. We are allowing assets to deteriorate beyond what they should be. We are reducing the level of services.²³⁸

This anxiety was reported in inner metropolitan councils with healthy balance sheets. Helen Sui, CEO of Moonee Valley City Council, discussed a possible draw down of services in 10 years time:

We are probably one of the councils that have quite a healthy financial balance sheet. But as I mentioned in my opening statement, we are a service-focused municipality. What often happens is a trade-off is required. Currently, we see the trade-off is we are not able to invest in all the community infrastructure we need. We also provide a lot of services to our community that many other councils no longer provide directly that our community really appreciate, like child care and kindergarten. We have young family and aged care and disability services, and we have our own libraries, five libraries. We love those services, but as the costs increase with our staff wages and related maintenance costs, probably before long we will need to think about which services we need to consider. Can we still maintain the same service level? Certainly I would say if things continue like this, before 10 years we will have some serious problems with which services we have to look at the service level, let alone infrastructure.²³⁹

FINDING 19: Victorian councils face a trend of deteriorating financial sustainability across all council types, a trend predicted to continue over the next five to ten years, due at least in part to cost shifting.

²³⁷ Kim Jaensch, Director Corporate and Commercial Services, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 14.

²³⁸ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 19.

²³⁹ Helen Sui, Chief Executive Officer, Moonee Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 28.

Chapter 4

Rate capping

4.1 Overview

Rate capping has been in force in Victoria since 2016. A number of councils described the impact rate capping has had on their financial sustainability, putting at risk their ability to fund services and deliver infrastructure. The impact on ratepayers is mixed, with 40% experiencing a reduction in their rates since the policy was implemented, but others including some farmers and rural property owners have experienced rate increases.

Councils provided the Committee with recommendations on how to modify the rate cap to improve their financial situation. This included introducing a correction mechanism when the rate cap is set below CPI, and to use a local government cost index instead of the CPI, which would better reflect the costs councils face in serving their communities.

4.2 The rate cap

The evidence presented to the Committee from stakeholders acknowledges broad community support for the rate cap. While the policy was not supported by all stakeholders,¹ few advocated for its wholesale repeal, which one stakeholder said ‘would be a free-for-all’.²

The rate cap was introduced in 2016–17. According to the Minister’s Second Reading speech for the legislation that introduced the rate cap, it was intended to give Victorians ‘strong, accountable and efficient local councils’ and give ratepayers a ‘measure of control over the rates they are required to pay in return for council services’.³ Mike Gooley, Local Government Victoria, said ‘I think prior to 2016 the average rate increase per year was about 8 per cent. Obviously that was much more than CPI.’

Stakeholders provided a number of recommendations on how to improve or modify the way the rate cap is calculated (which are discussed later in this Chapter), rather than a root and branch reform. As such, the Committee has not been minded to recommend a repeal of rate capping.

¹ Australian Services Union, *Submission 87*, pp. 11–13.

² Peter Mitchell, President, Ratepayers Geelong, public hearing, Melbourne, 8 October, *Transcript of evidence*, p. 43.

³ Natalie Hutchins MP, Minister for Local Government, Legislative Assembly, Hansard, 12 November 2015, p. 4417.

4.3 The financial impact of rate capping

4.3.1 The impact on Victorian councils

As discussed in Chapter 2, rates are the largest source of revenue for all council groups, except for small shire councils.⁴ The application of a cap to this key revenue stream has understandably had significant financial impacts.

Kathryn Arndt, CEO of the Victorian Local Government Association, gave an overview of the impacts of rate capping on the services and provision of infrastructure across Victorian councils:

Councils have a rate cap imposed by the state government. This constrains the generation of revenue required to deliver additional services, programs and well-maintained infrastructure to not only current residents but future. While demand costs and community expectations continue to grow, revenue through rates and funding from other levels of government fall further behind. This is despite population growth in many municipalities and escalating demand for volume, quality and reliability in public services. Rural councils in particular face significant concerns about maintaining services in the future within a rate-capped environment.⁵

John Baker, CEO of Mornington Peninsula Shire Council, gave an assessment of the impact at a council level, noting that ‘with 81 per cent of our revenue coming from rates, rate capping limits our ability to adjust income in line with inflation, threatening our financial stability and the ability to deliver essential services’.⁶

Similarly, Hobsons Bay City Council’s submission said:

The financial challenges posed by rate capping continue to impact Council’s capacity to deliver comprehensive services and maintain infrastructure standards. The income data over the past five years underscores the growing gap between capped revenue and the financial requirements necessary to support the community effectively.⁷

Mark Stoermer, Brimbank City Council, estimated the Council had forgone approximately \$160 million in revenue since rate capping was introduced based on the previous trajectory of rate increases.⁸

Rate capping has impacted councils across a number of areas of council operation. For example, Yarriambiack Shire Council explained that the rate cap made enterprise bargaining difficult. This is because councils did not know what the rate cap would be

⁴ Local Government Victoria, presentation to committee at a public hearing, Melbourne, 26 June 2024, p. 8.

⁵ Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 27.

⁶ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 2.

⁷ Hobsons Bay City Council, *Submission 32*, p. 11.

⁸ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 3.

in the years ahead, and it had been below CPI in recent years. This put the Council in a constrained bargaining position and put financial pressure on the Council.⁹

Tash Wark, the Australian Service Union, said the Union had commissioned a report that estimated the impact rate capping had on the wider economy in Victoria:

We have calculated that rate caps reduced employment in Victoria, which is counting both direct local government jobs and indirect private sector jobs, by up to 7425 jobs in 2021–22 and also reduced GDP by up to \$890 million.¹⁰

She added that this had a downstream effect on private sector jobs and reduced spending in local communities.¹¹

Ms Wark argued that rate capping is a counterproductive austerity policy that stifles larger economic growth:

It is economically and socially counterproductive for governments to impose measures that arbitrarily restrict the scope of services that governments deliver, in their breadth and their capability and their performance. We say that rate caps operate in similar ways to various other forms of austerity measures that have been imposed over time, including staffing caps, wage caps or caps on overall costs, and that generally they are based on the simplistic assumption that smaller government or smaller deficits will translate into improved economic performance. So whilst rate caps are a little bit different in form, they perform a similar kind of function in embedding a dynamic of self-fulfilling fiscal restraint and even austerity, but they apply brakes to recovery and to growth.¹²

John Baker, CEO of Mornington Peninsula Shire Council, informed the Committed that he was previously a Chief Officer of a council in the United Kingdom. He informed the Committee of the impact of rate capping in the United Kingdom, which has been in place since 1989:

It was introduced in 1989 under the Margaret Thatcher government, and of course it really bit during the global financial crisis, where we saw real-term decreases in revenue for local government in the order of between 15 to 20 per cent. These were huge cuts that you saw in local government over that period of time. We have seen, cumulatively, evidence in the UK of what the end point is, in my opinion, of crude rate capping. It may seem like a superficial comment, but try and find a public toilet in a municipality in the UK and not pay for it. Try and find a well-kept public park to the standard that you see in Victoria at the moment. The roads – whilst obviously potholes and various other points are a consistent theme of local government, be careful what you ask for, because

⁹ Yarriambiack Shire Council, *Submission 45*, p. 2.

¹⁰ Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 15.

¹¹ Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 18.

¹² Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 15.

to be blunt, when you are driving around many places in the UK, the roads are nowhere near the standard of the roads that you see in Victoria. That, I believe, is a direct impact of the introduction and maintenance of rate capping over many years.

The end point for that of course is you see the largest local authority in Europe, with a budget of over £2 billion a year, Birmingham City Council, facing massive financial challenges to a point that it can no longer function effectively. They are the first among a long line of local authorities in the UK that over many years have experienced death by a thousand cuts. That is, I believe, the result of the introduction and maintenance of rate capping in a crude way.¹³

FINDING 20: Rate capping and cost shifting has significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.

4.3.2 The impact on ratepayers

While rate capping has had a significant financial impact on local councils, some ratepayers, particularly residential and commercial ratepayers, have seen their rates bill decline since rate capping was introduced. This has been a welcome financial relief for many against a background of significant inflation in recent years. However, not all ratepayers have had their rates reduced. Farmers and owners of rural properties said that councils had used differential rates to increase their rates to unsustainable levels.

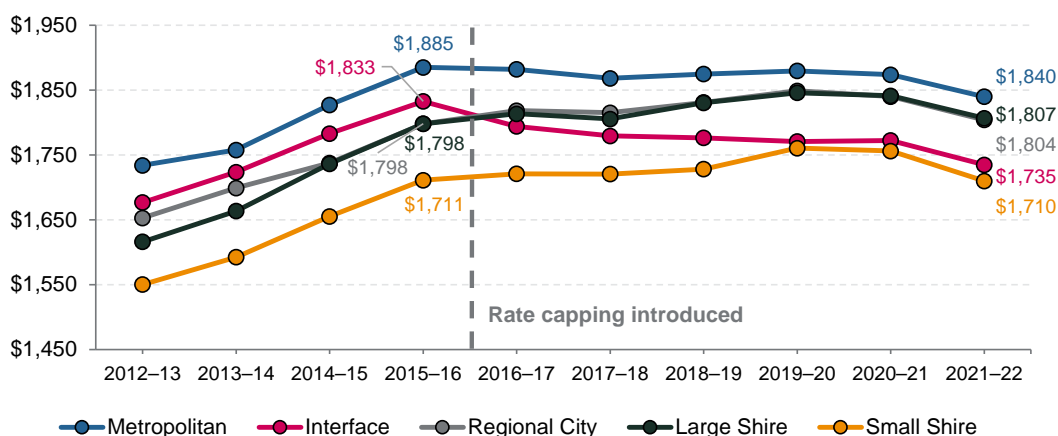
The Essential Services Commission's most recent *Outcomes of Rate Capping* report stated that while overall revenue from rates continues to grow, the amount collected from many property owners has declined. This means that 'on average, ratepayers paid less in capped rates than they were paying prior to rate capping'.¹⁴

Figure 4.1 from the *Outcomes* report shows the decline in revenue per property that different council groups have collected since rate capping began.

¹³ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 5.

¹⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 3.

Figure 4.1 Rates revenue per property, by council group, 2012–13 to 2021–22



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 8.

Gerard Brody, the Essential Services Commissioner, explained that ‘on average, since rate capping began, around 40 per cent of ratepayers have experienced a decrease in their rates, 16 per cent have seen increases below or equal to the cap and 44 per cent have seen increases above the cap’.¹⁵

While this has been welcomed by some, others argued that decreased services and facilities as a result of reduced council income has a negative impact on wellbeing for the whole community,¹⁶ including local government employees who have received wage rises below CPI.¹⁷

FINDING 21: Approximately 40% of ratepayers have experienced a decrease in their rates since the introduction of rate capping in 2016–17. The groups of ratepayers that have experienced rate cap reductions are residential property owners and commercial and industrial property owners. 44% of rate payers have seen increases above the rate cap. Some ratepayers, particularly some farmers and rural property owners have experienced rate increases due to the way the rate cap is applied by their councils

Farming and rural properties

The Committee heard that farming and rural properties have not been the beneficiaries of rate decreases.

The Essential Services Commission’s *Outcomes* report shows that overall, rural properties have paid higher rates since the introduction of rate capping. Figure 4.2 shows that while residential and commercial and industrial properties have paid less

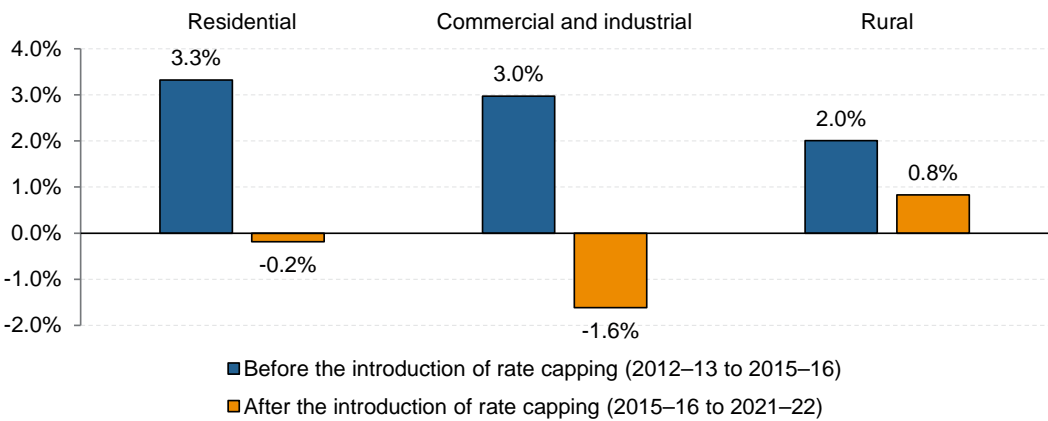
¹⁵ Gerard Brody, Commissioner and Chairperson, Essential Services Commission, public hearing, Melbourne 8 October 2024, *Transcript of evidence*, p. 26.

¹⁶ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 40.

¹⁷ Tash Wark, Branch Secretary, Australian Services Union, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 16.

in rates since the introduction of rate capping, rural properties have on average paid 0.8% more.

Figure 4.2 Average annual growth in capped rates per property, by property type, before and after rate capping



Source: Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 7.

The Essential Services Commission state that the reason for this was an increase in property valuations for rural properties, combined with a decline with the number of rural properties:

The average annual growth in capped rates per property for rural ratepayers (including those with urban farms) was 0.8 per cent. This was due to a considerable increase in rural property valuations (7.6 per cent per year on average), together with a decline in its property number (–0.5 per cent per year on average) after rate capping.¹⁸

However, the Victorian Farmers Federation told the Committee that rural councils have been using differential rating options to increase the amounts of rates paid by farmers, relative to other property types.¹⁹

Box 4.1 What is differential rating?

The amount of general rates a ratepayer pays is determined by multiplying the value of their property by what is known as the ‘rate in the dollar’. Some councils set a uniform rate in the dollar for different types of property, while others have different rates in the dollar for different types of property, such as a farm or a residential property. Charging a different rate for a different type of property is known as differential rating.

Source: Essential Services Commission, *The Outcomes of rate capping*, 2023, p. 4.

¹⁸ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 7.

¹⁹ Victorian Farmers Federation, *Submission 106*, p. 7.

The Victorian Farmers Federation provided their analysis of council budgets for 2024–25, which ‘shows that 19 regional councils increased farm rates above the government rate cap of 2.75%, whilst residential rate increases remained at or below the cap’.²⁰

Stakeholders provided evidence to the Committee that suggested that property value increases and the use of differential rating have contributed to a rise in rates for rural properties.

John Buxton, from Buxton Agriculture, said that he has borne a 192% increase in rates between 2009–10 and 2024–25:

Our rates have gone from \$7958.43 in 2009–10 to \$23,261.01 for 2024–25. That is a 192 per cent increase over that period of time – 12 per cent per annum. Now, I put it to the shire: why do you hate us?²¹

Mr Buxton discussed data he had collected about rates in Wellington Shire Council between 2021 and 2024–5. He said it showed that the average rates cost per assessment for residential rates had increased very slightly over the period, industrial rates had declined 35.6% and farm rates had increased 36.34%.²² He surmised that ‘the rating burden has been pushed onto a minority group with limited voting power and no ability to pass these costs on’.²³ Mr Buxton added that the council provides a 20% discount on the rate in the dollar of their capital improved value.²⁴

Herb Ellerbock, Indigo Community Voice Inc, also gave evidence of a significant rise in the rates paid by rural property owners in Indigo Shire:

Average increases for rural 2 properties – in 2021–22 the average increases more than five times the rate cap. This is for rural 1. In 2021–22 the average increase was almost nine times the rate cap and more than 6½ times in 2023–24. It is no wonder the Victorian Farmers Federation is jumping up and down.²⁵

Mr Ellerbock believed the key reason for the rise was the use of differential rates by Indigo Shire. He said:

The use of static differential rates results in unpredictable and excessive rate increases for ratepayers based on their property category. The Victorian government rate cap does not prevent those excessive rate increases, and councils are failing to follow a key principle under the *Local Government Act* in that revenue and rating plans must seek to provide stability and predictability in the financial impact on the municipal community.²⁶

²⁰ Victorian Farmers Federation, *Submission 106*, p. 7.

²¹ John Buxton, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 68.

²² John Buxton, public hearing, Traralgon, 4 September 2024, *Transcript of evidence* p. 68.

²³ John Buxton, public hearing, Traralgon, 4 September 2024, *Transcript of evidence* p. 68.

²⁴ John Buxton, public hearing, Traralgon, 4 September 2024, *Transcript of evidence* p. 73.

²⁵ Herb Ellerbock, President, Indigo Community Voice, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 36.

²⁶ Herb Ellerbock, President, Indigo Community Voice, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence* p. 37.

We say that section 161 of the *Local Government Act* and the Ministerial Guidelines for Differential Rating should be amended to make such adjustments mandatory and that the Essential Services Commission should monitor compliance with the rate cap at the ratepayer level and not at the council level.²⁷

Sandra Grant, a farmer in Wellington Shire, said that wealthy lifestyle property buyers in her area were pushing up the price of farming property beyond its commercial farming value, and increasing the rates of farmers who survive on their agricultural income.²⁸ She advocated for a rates rebate for large-scale primary producers, in comparison to ‘hobby farmers’.²⁹

The Committee heard that the increase in rates for farmers is problematic because of their capacity to pay, with some reporting they pay more in rates than they earn.³⁰ The issue of capacity to pay will be discussed in more detail in Section 4.4.

Mr Ellerbock advocated for a policy of keeping differential rate increases as near as possible to each other to avoid large discrepancies in the amount different categories of ratepayers are charged:

A solution to this problem already exists. The differential rates can be readily adjusted so that the average rate increase for every property category is as near as possible the same each time the properties are revalued. The *Local Government Act* provides for this, but only a few councils are actually doing it. The effect of adjusting the differential rates is to transform these erratic and unpredictable rate increases into predictable and equitable increases.³¹

The Victorian Farmers Federation recommended that the Victorian Government ensure the rate cap is applied to each category of land use for ratings purposes. Such a system would mean:

Councils would still have flexibility to vary rate changes between land types, but these would be limited by the cap. Instead, councils would need to dynamically use their differential rating power to account for valuation asymmetries between land types on an annual basis. The fundamental principle should be that as the value of farmland increases, the differential rate is adjusted to reduce the rate in the dollar so that the rate burden paid by the farm sector remains stable.³²

²⁷ Herb Ellerbock, President, Indigo Community Voice, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence* p. 37.

²⁸ Sandra Grant, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 69.

²⁹ Sandra Grant, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 69.

³⁰ Trent Anderson, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 72.

³¹ Herb Ellerbock, President, Indigo Community Voice, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 37.

³² Victorian Farmers Federation, *Submission 106*, p. 8.

They said that this approach has been used in Ararat Rural City Council and Mansfield Shire Council.³³

The Committee notes that this system has already been in operation at Ararat Rural City Council for seven years.³⁴ This is long enough for other councils to assess the impact of the policy on the council's financial position. The Committee believes that is up to individual councils to assess the merits of this policy and consult with their communities as to whether they wish to see it taken up.

FINDING 22: Farming, rural properties and small businesses have been disproportionately affected by Victoria's rate cap, with many experiencing significant rate increases. This is primarily due to rising property valuations, council's choices when striking the rate in the dollar, and the use of differential rating by councils. This has resulted in higher rates for farmers, often exceeding their capacity to pay, and exacerbating financial pressures on the agricultural sector.

RECOMMENDATION 9: That the Victorian Government instigate a review of the ratings system to ensure no particular category is carrying an unfair burden of the rates levied, with particular reference to farmers, small businesses and rural property owners.

4.3.3 Freezing council capacity at 2016 standards

Councils reported that one of the outcomes of the rate capping policy is that income generating capacity of councils has been 'frozen' at the rate it was in 2016, when rate capping was introduced. Since then, councils have seen changes in population size and community needs. However, the income they are able to generate is proportionately based on their service level provision in 2016.

The submission from YIMBY gave an overview of this issue, stating that the rate cap has locked in inequality between councils because of the different rates charged in 2016, and failed to account for growth:

The cap is relative to each Council's self-set 2016 rates. As such, the rate cap has locked in inequality between councils-because Councils with high rates then have high rates now, and vice versa. This has created a situation in which slow-growing councils have high rates, while other, faster-growing municipalities began from a lower 2016 base, and as such are put in a position where they may disproportionately struggle to provide increased services and infrastructure for residents.³⁵

³³ Victorian Farmers Federation, *Submission 106*, p. 8.

³⁴ Victorian Farmers Federation, *Submission 106*, p. 8.

³⁵ YIMBY Melbourne, *Submission 44*, p. 4.

John Baker, CEO of Mornington Peninsula Shire Council, gave an example of this issue. He said that his Council offered the 8th lowest rates in Victoria when the cap was introduced.³⁶ He said that since then, the Mornington Peninsula Shire Council has lost approximately \$40 to \$42 million in rates compared to the interface council average:

For Mornington Peninsula, with an average rate income of \$1653 per rateable property, the effects of reduced income have become evident. Our average rate is approximately \$350 lower than interface councils' average and \$400 below the state average, translating to a loss of about \$40 million to \$42 million in rates income per annum since the introduction of rate capping. Over time councils with lower average rates will experience a decline in service levels due to the compounding effect of the cap.³⁷

Mr Baker argued that councils forced to keep rates at this proportionately low level were 'likely to face much greater financial challenges sooner than others.'³⁸

The submission from Knox City Council also discussed their constrained revenue, relative to other councils since the introduction of rate capping. They said:

There is significant inequity in the current system. Knox itself has one of the lowest residential rates in metropolitan Melbourne and is heavily constrained financially. The disparity in the rate capping system is creating an imbalance in the services and facilities available to the community. The continuation of rate capping is exacerbating this imbalance, further impacting the quality of services and infrastructure provided to residents.³⁹

Knox estimated a loss of \$12 million in rates, relative to comparable surrounding metropolitan councils.⁴⁰

The submission from YIMBY provided a graph of the total annual revenue of metropolitan councils since rate capping was introduced. It illustrates how councils with higher rates in 2017 have locked in their position, with little change in the intervening years.

³⁶ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 8.

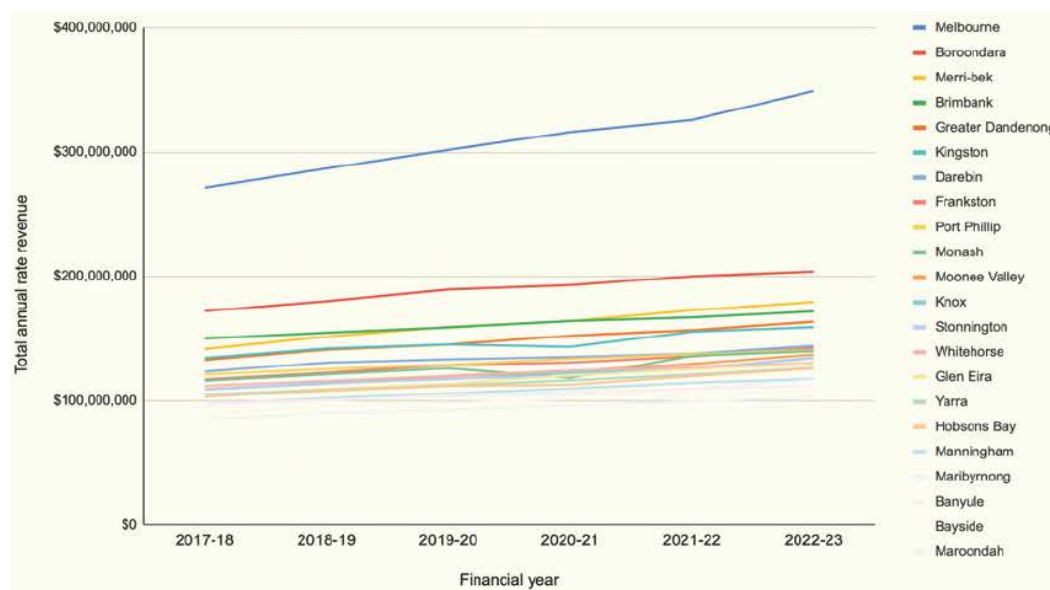
³⁷ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 2.

³⁸ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 2.

³⁹ Knox City Council, *Submission 47*, p. 9.

⁴⁰ Knox City Council, *Submission 47*, p. 9.

Figure 4.3 The total annual revenue of metropolitan councils, 2017–18 to 2022–23



Source: YIMBY, *Submission 44*, p. 4.

Cr Jude Dwight, Mayor of Knox City Council, spoke to the Committee at a public hearing. She said the effect of the revenue inequality resulted in different service levels at different councils:

... So whilst the boundary of a local government area is quite arbitrary – you know, there will be a sign at the boundary – you can actually physically see the differences because of the rates that are coming in for that council to be able to look after their municipality.⁴¹

Mr Baker recommended that the Essential Services Commission allow councils that had a smaller average rate when rate capping was introduced to be able to increase their rates back up to the average:

In our proposal we have put forward an argument that the state government should consider relaxing the rate cap variation request for councils with average rates below the state average to allow them to level up. This adjustment could be implemented over several years, helping to ensure financial sustainability and maintaining service levels but also providing an equitable base to look at the rate cap going forward.⁴²

The provision of different service levels amongst similar councils is a concern for the Committee. The Committee notes that councils concerned about their financial position may apply for a rate cap variation. While it acknowledges the significant disincentives in applying for a rate cap variation (as discussed in Chapter 3), the variation process is still the most appropriate avenue for seeking a revenue adjustment in this regard.

⁴¹ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 39.

⁴² John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 2.

4.4 Capacity to pay

The second part of this Chapter examines recommendations to modify the rate cap to improve council revenue. However, the Committee is mindful that any increase to the rate cap would be borne by ratepayers. The Committee was told that the councils who's financial sustainability is most under threat, including small shire councils, are home to ratepayers with the least ability to afford rate increases. The impact on these groups must be carefully taken into account before any rate increase is considered.

The MAV described some of the complexities associated with this issue, saying 'communities with the least ability to pay are also the most expensive to service due to factors such as socio-economic disadvantage and small and disparate populations'.⁴³ They said that 'in many councils, capacity to pay is reaching its limits. We have seen several rural councils in particular adopting rate increases below the rate cap since the beginning of the COVID pandemic'.⁴⁴

The MAV gave an example of the Greater Dandenong City Council, which has high levels of disadvantage. The Council recognise that its ability to raise additional revenue through rates is limited:

Even absent of external impositions on revenue and expenditure, CGD carefully considers the ability of its community to bear additional cost burdens. Greater Dandenong has high levels of severe disadvantage, poverty, homelessness, and unemployment. The ability to find additional revenue through either rates or user pays systems is extremely limited. These communities also rely heavily on council services, and any reduction to services would have severe impacts on both an individual and societal level.⁴⁵

Allison Southwell, CFO of Cardinia Shire Council, gave an example of the scale of ratepayer hardship, recording an increase in debtors:

Just even from a pure numbers perspective, from this financial year just ended, from the previous year, we have seen an almost \$4 million increase in the value of rates debtors – so that is people who are not able to pay their rates, whether they are on payment plans, on hardship deferrals, as you say.⁴⁶

Dean Hurlston, Council Watch, said that councils who advocated for rate rises to were ignoring cost of living issues experienced by ratepayers. He asked: 'where is any additional money going to come from – the state government? Our hip pockets? I do not think in a cost-of-living crisis that anyone in the industry is being realistic ...'⁴⁷

⁴³ Municipal Association Victoria, *Submission 105*, p. 15.

⁴⁴ Municipal Association Victoria, *Submission 105*, p. 36.

⁴⁵ Municipal Association Victoria, *Submission 105*, p. 33.

⁴⁶ Allison Southwell, Chief Financial Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 33.

⁴⁷ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

Marcus Crudden, Commissioner of the Essential Services Commission, gave an overview of the capacity of rate payers from of small and large shire councils to pay higher rates:

Perhaps some of those councils, if they wanted to lift rates, may face a real challenge in imposing higher rates on some of the communities out there. That is where I think most of the problems are, and I suspect the majority of councils you are hearing from in this review are probably more in those groupings.⁴⁸

The Victorian Farmers Federation noted that farmers may have difficulties to pay rates as their ability to pay fluctuates according to seasonality, due to events beyond their control such as rainfall, natural disasters and commodity market prices.⁴⁹ Trent Anderson, a farmer, told the Committee at a public hearing ‘I pay more in rates than I take home myself.’⁵⁰

The Essential Services Commission in the *Outcomes of Rate Capping* report show that the amount of rates debtors has grown since the introduction of rate capping:

The amount of rates debtors (overdue rates) for each council group has grown since the introduction of rate capping. This was driven by a spike in 2019–20, likely a result of ratepayers experiencing financial difficulty due to the coronavirus pandemic. While the regional city and large shire groups have seen their rates debtors per property decrease since 2019–20, the small shire and interface groups have plateaued and the metropolitan group has seen continued strong growth.⁵¹

The Committee believes this shows that councils must be sensitive to the capacity of ratepayers to afford rate increases. As any increases may cause distress amongst financially precarious ratepayers.

Figure 4.4 below shows the increase in debtors per property between 2016–17 and 2021–22.

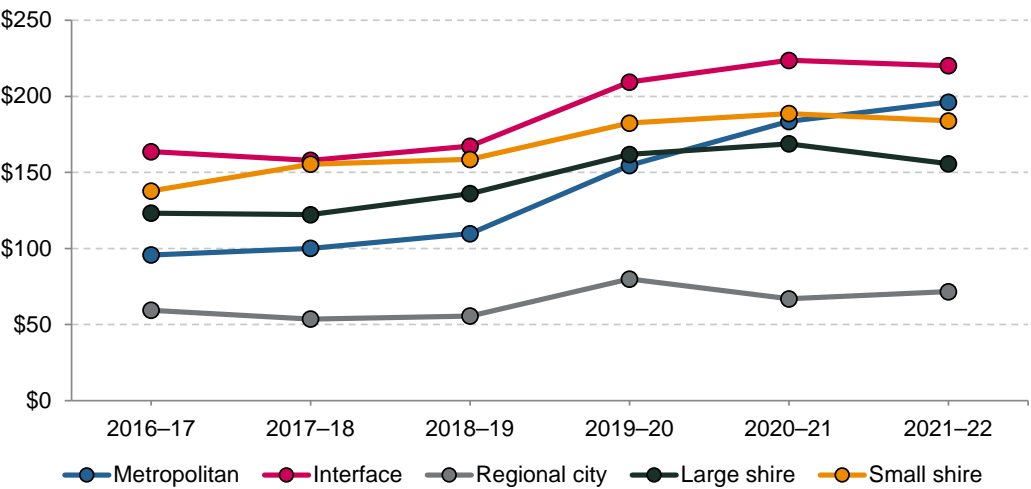
⁴⁸ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 32–33.

⁴⁹ Victorian Farmers Federation, *Submission 106*, p. 6.

⁵⁰ Trent Anderson, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 72.

⁵¹ Essential Services Commission, *The Outcomes of Rate Capping*, p. 10.

Figure 4.4 Debtors per property between 2016–17 and 2021–22



Source: Essential Services Commission, *The Outcomes of rate capping*, p. 10.

Kathryn Arndt, the Victorian Local Governance Association, argued that councils should have the ability to set their own rates, provided there are sufficient hardship payment policies in place. She also noted that well-funded councils are able to provide services to disadvantaged people:

The rate-capping policy was intended to stop councils from unrestrained rate rises, which was accomplished many years ago. There is also a question about people’s ability to pay. It is time to update this policy to either remove the cap or expand the discretion councils have to set rates, provided they have strong and accessible financial hardship policies in place. Ironically, more vulnerable residents and those experiencing financial hardship depend most on council services and programs. An approach to rate capping that does not recognise the value of council services does more harm than good to this group.⁵²

Matt Hyde, CEO of Wodonga City Council, said that his Council acknowledged the capacity of the community to pay rates was limited. As a result, the Council consults with its community on how best to provide services within the limits of the Council’s revenue. This is known as service planning:

Certainly the capacity to pay is a significant issue in our communities, and part of our financial sustainability review actually included a whole chapter assessment on the Wodonga community’s capacity to pay increased rates and guided council’s decision in the future. Certainly in the past councils that I have worked for have done similar research projects into the community’s capacity to pay. At the end of the day, the councils provide a level of service, and that level of service has an intervention level about legal responsibility. That is the minimum service provision that we can provide. We do have limited resources, so it comes down to a question of ‘Is the community

52 Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 22.

willing to pay for those services?’ That is why we have a very good community engagement plan, and we go in and check with communities about whether they are willing to pay for which types of services and how much they are willing to pay.⁵³

Service planning is discussed in Chapter 6.

FINDING 23: Any increase in rates as a result of modifications to the rate cap are constrained by the ability of ratepayers to afford higher rates.

4.4.1 Hardship provisions

Councils have hardship policies for people who are unable to pay their rates. Dean Hurlston, Council Watch, criticised council practices in relation to hardship provisions. He said that councils only offer a deferral of time to pay rates, rather than a reduction in rates:

What we constantly hear and what our research shows is that when people apply for hardship the only offer that councils give them is a deferral of time, not actual assistance. And then councils throw at them ‘Oh, but we won’t charge you any penalty interest.’ The Act does not legislate that penalty interest is ever mandatory. It is optional. Councils generally do not charge penalty interest. So it is a marketing ploy and a misdirection by councils to say, ‘We’re helping people in hardship.’ They are not. They are just deferring the cycle of payment.

Having spoken to hundreds of people who have applied for hardship across the state, they feel like they are being interrogated and looked down upon by a council if they ask for a hundred dollars off. We must do better. We must allow financial counsellors who know what they are talking about to go to a council and say, ‘This person is in hardship. We need your help.’ Instead councils are a law unto themselves. That has to change.⁵⁴

The Essential Services Commission has recently provided advice to the Minister for Local Government on hardship provisions. Marcus Crudden told the Committee:

We provided the Minister for Local Government with advice on a guideline for ratepayers experiencing difficulties in paying their rates in 2023. We drew on our experience in the water and energy sectors to recommend how a more modern approach could be adopted by councils. We also provided the minister with advice on an appropriate interest rate for councils to charge for unpaid rates and charges in April 2024 – that is this year. The minister is yet to make any change to the maximum interest rate.⁵⁵

⁵³ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 52.

⁵⁴ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 68.

⁵⁵ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 26.

Their advice to the Minister on hardship provisions advises that council hardline provision policies should include:

- Clear information about the circumstances in which the hardship policy should apply and the principles which it should adhere to.
- Hardship policies should be in line with the Local Government Act.
- Set expectations that coercive measures, such as debt collection, will be used as a last resort.
- Information on where the application of penalty interest on unpaid rates is appropriate and the rate of penalty interest.⁵⁶

Marcus Crudden said at the hearing:

It would probably be beneficial for both ratepayers and councils in terms of earlier, more proactive engagement with those that are not paying by establishing things like payment plans, making sure people are claiming things like concessions if they are eligible or even putting them into broader government programs if they have been affected by things like drought or pandemic. That is an area we think councils could probably improve in.⁵⁷

The Government released a draft of Ministerial Guidelines relating to the payment of rates and charges for public consultation in August 2023. The consultation period has closed and as of the time of writing the Government is reviewing feedback.⁵⁸

4.5 Rate capping and the Consumer Price Index

One of the most consistent themes in this Inquiry regarding rate capping was that the use of the Consumer Price Index (CPI) as a basis for setting the rate cap is inappropriate, and inadequate. Specifically, the Committee heard that:

- The CPI has little reflection on the costs councils face, which primarily relate to staffing, materials and services, as well as capital costs.
- The rate of CPI increase has been far lower than the increase in council costs.
- The rate of real CPI had been higher than the rate cap in recent years.

Steven Piasente, CEO of Latrobe City Council, gave an overview of these points. He said:

I think I had some numbers that indicated the total CPI had increased over a period of time by about 15.8 per cent and rate capping only increased by 7.75 per cent. We do not buy a lot of goods that you find in the CPI measure – a basket of goods

⁵⁶ Essential Services Commission, *Initial views on a hardship guideline to the Minister for Local Government*, 2023, pp. 7–10.

⁵⁷ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 33.

⁵⁸ Engage Victoria, *Ministerial Guidelines Relating to Payment of Rates and Charges*, <<https://engage.vic.gov.au/local-government-rates-ministerial-guidelines-relating-to-payment-of-rates-and-charges>> accessed 23 October 2024.

at the supermarket, such as bananas and bread and the like – so my personal view is that there could be a different mechanism that measures it differently in terms of construction costs and those others things that we do.⁵⁹

Similarly, Greg Box, CEO of Bass Coast Shire Council, said ‘for us, we do not buy too much milk, too many of those baskets of goods. We do buy a lot of concrete, a lot of electricity – a lot of the things that are actually escalating at costs that are way over that.’⁶⁰

The City of Ballarat was primarily concerned that the CPI had not kept pace with the costs that councils faced, saying it has foregone millions in revenue:

City of Ballarat contends that the mechanism to determine the rate cap is flawed. The level of Victoria’s rate cap is based on forecast CPI, which in recent years has been significantly below the rate of inflation. The rate cap does not accurately reflect the unique cost pressures faced by local government and, consequently, the City of Ballarat has forgone millions of dollars in revenue.⁶¹

Mr Box stated that ‘for three years, [the rate cap] has been underneath inflation: 2.75 per cent cannot possibly be what anybody’s view of inflation is.’⁶²

John Baker, CEO of Mornington Peninsula Shire Council, explained that even though the rate cap is meant to be based on the CPI, in recent years it has been below actual inflation. This has caused even more financial pressure on councils:

A rate cap below CPI results in real revenue decreasing for that year and for future years. The rate cap over the last few years was significantly lower than CPI. Just as an example, CPI for FY 2021–22 was 6.12 per cent, whereas the rate cap was 1.5 per cent. The impact was reduced income for FY 2021–22 of \$7.5 million – or \$84 million cumulatively over 10 years. Similarly, CPI for FY 2022–23 was 6 per cent and the rate cap 1.75 per cent, and the income was reduced by \$9.6 million – or over 10 years cumulatively \$77.7 million.⁶³

Sarah Brindley, Rural City of Wangaratta, said that the rate cap below the CPI caused a compounding loss for her Council:

rate cap amounts have been below the real CPI for the past few years, and that has effectively imposed ongoing savings targets, in effect, on councils. There is no true-up

⁵⁹ Steven Piasente, Chief Executive Officer, LaTrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, pp. 31–32.

⁶⁰ Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 1.

⁶¹ City of Ballarat, *Submission 41*, p. 4.

⁶² Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 10.

⁶³ John Baker, Chief Executive Officer, Mornington Peninsula Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 3.

for that, so if the rate cap amount is substantially under, we carry that gap, and that compounds over the future years just by the nature of how the rate cap works.⁶⁴

The Essential Services Commission in their advice to the Minister for Local Government on setting the rate cap admitted that in recent years, the gap between forecast CPI and actual CPI had been larger than usual.⁶⁵

Two recommendations were put to the committee regarding CPI and the rate cap:

1. That a mechanism should be introduced to allow councils to recover revenue lost when rate caps are set below the CPI, including retrospectively.
2. That the rate cap be set according to a local government cost index, which takes into account employment and construction costs.

4.5.1 Timing of the rate cap notification

The Committee heard from council representatives who highlighted the timing challenges they face in budget planning due to late notification of rate caps.

Allison Jones, Director of Performance and Innovation at South Gippsland Shire Council explained that:

That was linked to the Essential Services Commission – when they tell us what our rate cap will be. We start our briefing with councils in a non-election year in about October for the next budget. We are talking about what is happening in terms of what we think CPI will be, all of those things, and then – it feels like it is Christmas eve – we find out what the rate cap is. Councils generally have a break in January and we start briefing again in February, and we have just lost all of that time to be able to build our budget and know what the main assumption is. The timing feels odd.⁶⁶

Sheena Frost CEO of Hume City Council explained:

Thank you for the question. I think it makes it quite difficult to plan effectively. Well, it is not fair to say ‘plan effectively’, but we have to be very conservative in how we are planning. We start our budget process effectively now, but we will not find out often until very late December what the cap is. You end up having to be quite conservative in what you might be planning for. Also, with the financial assistance grants some of the timing becomes quite difficult. It would help the planning and consideration and make for better decision-making along the way to have forward notice and some greater certainty around what something will be. As part of any normal budgeting cycle, a bit more certainty would be helpful.⁶⁷

⁶⁴ Sarah Brindley, Director Corporate and Leisure, Rural City of Wangaratta, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 45.

⁶⁵ Essential Services Commission, *Advice on the Rate Cap for 2024–25*, p. 5.

⁶⁶ Allison Jones, Director, Performance and Innovation, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 28.

⁶⁷ Sheena Frost, CEO, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 55.

Taryn Abrahamsson, Manager of Financial Strategy at South Gippsland Shire Council also added that:

I was just making the point that it would be good for us to be able to match that expenditure to expected revenue if we were to know the amount that we are actually going to be getting pre Christmas.⁶⁸

These witnesses suggested that if councils could receive rate cap information before December, it would support more effective and accurate budget planning.

FINDING 24: Local councils face significant challenges in preparing their annual budgets due to delays in receiving essential financial information regarding the rate cap.

4

RECOMMENDATION 10: That the Victorian Government should provide local councils with timely and clear information regarding the annual rate cap, enabling them to plan and budget more effectively for the coming financial year.

4.5.2 Correcting rate caps that are set below actual CPI

The MAV was critical that there is no adjustment mechanism to for council revenue to be modified if CPI does not match the rate cap. They advocated for a mechanism to correct this:

Secondly, there is no adjustment mechanism to account for when forecasts do not match reality. Instead, the rate cap is merely set based on the new forecast without consideration of previous gaps. Incorporating a mechanism to “catch up” via future rate caps would go some way to addressing the compounding revenue challenges councils face.⁶⁹

They proposed a model that would enable the rate cap to be corrected if the CPI was above or below projections, with the mechanism applied across multiple years to reduce the level of volatility:

If costs have increased above what was projected, the following year’s rate cap should allow councils to “catch up” the gap. Similarly, if cost increases come in below projections the next rate cap should be set lower than it otherwise would to reflect this. The rate cap could be set within an upper and lower bound, with the correction mechanism being applied across multiple years to reduce the level of volatility.⁷⁰

⁶⁸ Taryn Abrahamsson, Manager of Financial Strategy, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, Transcript of evidence, p. 28.

⁶⁹ Municipal Association Victoria, *Submission 105*, pp. 14–15.

⁷⁰ Municipal Association Victoria, *Submission 105*, pp. 35–36.

This the lack of an adjustment mechanism was raised by Knox City Council, who noted that the Essential Services Commission was aware of the issue.⁷¹ They proposed:

That the Essential Services Commission (ESC) be required to consider adjustments to correct historically set rate caps that were insufficient to meet the indexation of local government costs.⁷²

The Rural City of Wangaratta also recommended that the Essential Services Commission should be empowered to include an adjustment factor for the difference between forecast and actual CPI:

Amend the ESC's calculation of the rate cap for the coming financial year to include an adjustment factor for the difference between forecast and actual CPI of the previous year.

Allow the ESC to increase the approved higher rate caps where there are differences in forecast and actual CPI.⁷³

FinPro agreed, saying:

That the ESC be required to consider adjustments to correct historically set rate caps that were insufficient to meet the indexation of local government costs.⁷⁴

The Committee believes that the Victorian Government should review the applicability of a mechanism that would allow the Essential Services Commission to correct the rate cap in the subsequent year if the actual CPI is above or below the projected CPI which was the basis of a rate cap decision.

4.5.3 A local government cost index

A number of councils and other stakeholders argued that CPI should not be used at all. Instead, they advocated that a new 'local government cost index' should be used that incorporates costs that are more relevant to councils including employee costs and capital costs.

The submission from FinPro suggested using a local government cost index, with various components that would have increased income to councils in comparison to the CPI:

Using an adjusted Local Government Index, that takes into account each of Cost Price Index (CPI), Wages Price Index (WPI) and Road and Bridge Construction Index (RBCI). FinPro demonstrates that since 2016/17 (start of the Fair Go Rating System) the rate cap has resulted in a cumulative increase of 15.43%, while a possible LGCI has increased by 22.93%.⁷⁵

⁷¹ Knox City Council, *Submission 47*, p. 8.

⁷² Knox City Council, *Submission 47*, p. 3.

⁷³ Rural City of Wangaratta, *Submission 46*, p. 2.

⁷⁴ LG FinPro, *Submission 11*, Attachment 2, p. 6.

⁷⁵ LG FinPro, *Submission 11*, Attachment 2, p. 4.

Other stakeholders agreed that the rate cap should be based on costs applicable to local councils.⁷⁶ Steven Piasente, CEO of Latrobe City Council, when asked whether the CPI was an appropriate index to for the rate cap, said he believed employee costs and construction costs should be considered:

a lot of our costs are employee costs – 60 per cent of our budget will be employee costs. We are looking at probably around a 3 per cent increase in staffing costs in terms of their enterprise bargaining agreement ...

... But if it was a figure that included some better measure of wage increases – and we look at our construction costs and other costs in terms of operating our services, particularly our operations teams and maintenance and the like in terms of bitumen products – and if you take out some of those factors around just the pure CPI basket of goods, it better reflects those things that we do in the industry. A lot of that is wages. Another component is construction costs – we are seeing those increase dramatically. Capital costs are increasing, and supply costs for materials.⁷⁷

He added that ‘it would be very hard I think for a government to say we are going to totally remove it, but I think a different measure certainly would help us in terms of financial sustainability to a greater degree.’⁷⁸

The MAV informed the Committee it has drafted a proposed local government cost index, based on methodologies in use in other jurisdictions. Its index is weighted in the following way:

- Employee costs (40%)
- Infrastructure (30%)
- CPI (30%).⁷⁹

The MAV provide a graph, Figure 4.5, which show the difference in revenue that councils would have received had the MAV’s local government cost index been in place since the introduction of rate capping.

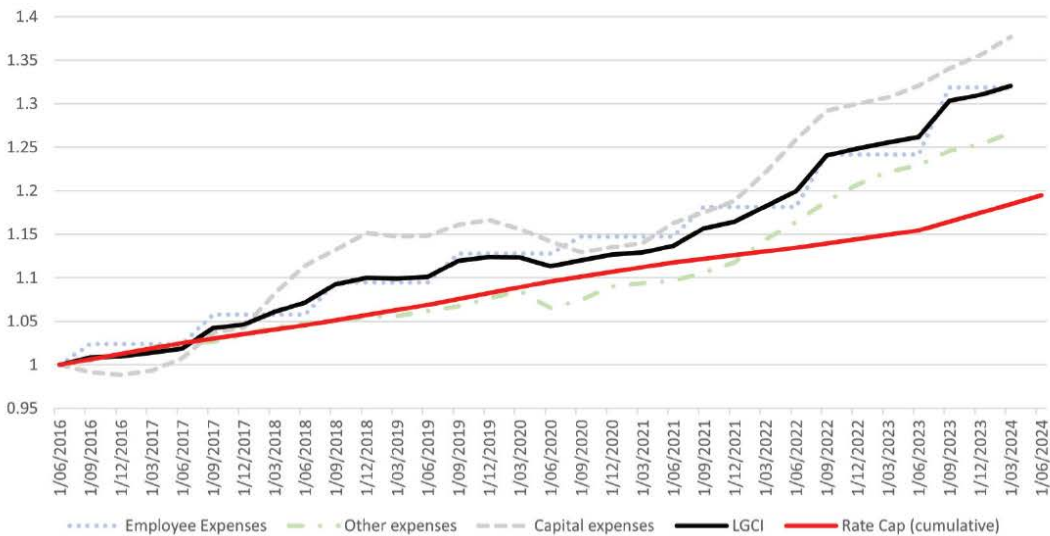
⁷⁶ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 50.

⁷⁷ Steven Piasente, Chief Executive Officer, LaTrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 32.

⁷⁸ Steven Piasente, Chief Executive Officer, LaTrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 32.

⁷⁹ Municipal Association Victoria, *Submission 105*, p. 47.

Figure 4.5 Growth in LGCI and components indexed to June 2016



Source: MAV, Submission 105, p. 97.

The submission from the City of Greater Geelong outlined that New South Wales has a rate cap based on a local government cost index, which it says ‘accurately reflects the specific cost increases faced by councils, ensuring fairer rate adjustments that align with financial realities.’⁸⁰ The Council said that ‘adopting a similar methodology in Victoria would enhance councils’ capacity to respond effectively to infrastructure and service needs’.⁸¹

Marcus Crudden, the Essential Services Commission, informed the Committee that it monitors the local government cost indexes used in New South Wales, South Australia and Tasmania. They input Victorian data into those indexes to see what the rate cap would be if Victoria had a local government cost index along the lines of other jurisdictions.⁸² This information informs the advice the Commission provides to the Minister on the rate cap.⁸³

The Commissioner explained that in recent years the local government cost index in recent years would have been higher than the CPI:

When updated with price inputs relevant to the Victorian setting, the three indices estimate that Victorian council costs increased by around 3.9 to 4.3 per cent from September 2022 to September 2023. Over the same period, Melbourne headline inflation was 4.9 per cent. We also note that rate caps in 2021–22 and 2022–23 were lower than increases in council costs, and this trend continues to hold for the 2023–24 rating year as of September 2023.⁸⁴

⁸⁰ City of Greater Geelong, *Submission 73*, p. 8.

⁸¹ City of Greater Geelong, *Submission 73*, p. 8.

⁸² Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 30.

⁸³ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 30.

⁸⁴ Essential Services Commission, *Advice to the Minister on Setting the Rate Cap, 2024–25*, p. 5.

However, he cautioned that a local government cost index would not always be beneficial for councils. When he was asked whether it would result in higher revenue for councils, he said it depends on the year:

I think these things tend to vary in individual years. I think the other thing we find is they would generally possibly in recent times be higher than the default rate but lower than the headline CPI, which I know a lot of councils have also raised with you, saying inflation was 4 per cent and we got 3. Usually you find the gap comes somewhere between the two ...⁸⁵

... In some years it could be less. Even under the CPI rate cap there were a number of years where actual inflation turned out lower than the cap.⁸⁶

This was shown in the Essential Service Commission's advice to the Minister on setting the rate cap for 2024–25. The Commission provided a comparison of the rate cap, and their local government cost index, (shown as 'cost indices' in Figure 4.6) The local government cost index was lower than the rate cap in 2019–20.

Figure 4.6 Rate cap, actual inflation

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Rate cap	2.25	2.5	2.0	1.5	1.75	3.5	TBD	TBD
Actual inflation ^(a)	1.7	1.7	1.4	4.0	7.0	4.9	-	-
Cost indices ^(b)	2.6 to 2.7	0.3 to 1.2	1.6 to 2.0	4.7 to 6.1	4.2 to 4.7	3.9 to 4.3	-	-
DTF CPI forecast ^(c)	-	-	2.25	1.5	1.75	4.0	2.75	2.5
RBA CPI forecast ^(d)	-	-	1.85	1.1	2.25	4.45	3.4	2.9
DTF WPI forecast ^(c)	-	-	3.25	1.75	2.0	3.5	3.5	3.25
RBA WPI forecast ^(d)	-	-	2.3	1.4	2.5	3.9	3.7	2.9

Source: Essential Services Commission, *Advice to the Minister on setting the rate cap, 2024–25*, p. 6.

Bass Coast Shire Council also expressed concern about using a local government cost index. They said the added complexity of such a system meant it would be difficult to explain to the community, and gain acceptance.⁸⁷

Mike Gooley, Local Government Victoria, was asked whether a local government cost index should be considered for setting the rate cap, he replied:

We know that councils are asset-heavy businesses. So as part of that, then it does come down to: what is a reasonable basket of goods, if you like, to have to compare that increase? It is certainly, again, a question perhaps for the Essential Services

⁸⁵ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 31.

⁸⁶ Marcus Crudden, Executive Director Price, Monitoring and Regulation, Essential Services Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 31.

⁸⁷ Bass Coast Shire Council, *Submission 16*, p. 5.

Commission. I think for water infrastructure, when they have said they are thinking about water prices, they do give consideration to the fact that that industry is an infrastructure-loaded sector. Similarly, in terms of the sort of advice that could come from the ESC and some of the policy considerations, they are some of the things that are absolutely live in terms of conversations.⁸⁸

FinPro believed that the rate cap should be set by a local government cost index. They provided the following recommendation:

That the ESC be required to calculate and have regard in advice provided to the Minister to a local government cost index for the Victorian local government when considering advice to the minister on setting the rate cap each year.⁸⁹

The Committee agree that the CPI is an inappropriate index for setting the rate cap in its entirety, as it has little grounding in the costs that councils face.

The Committee notes that the Essential Services Commission used to include a 40% weighting for the Wage Price Index in rate cap during the first years of rate capping.⁹⁰ The ratio of the Wage Price Index in the rate cap was slowly reduced over the subsequent years. A 2018 paper on *Advising a Local Government Efficiency Factor* stated reasoning was that ‘inflexible costs’ in the form of employee bargaining agreements in place at the beginning of rate capping would expire and new agreements would be able to be negotiated.⁹¹ The paper stated it expected that efficiency would be embedded in councils as a result of rate capping, but that in the longer term ‘we will examine whether CPI is the appropriate long term cap on local government rates. We will again consult widely when we undertake this review in 2020.’⁹²

In the Essential Service Commission’s advice to the Minister on setting the rate cap in 2020–21 it said ‘we previously indicated that we may undertake another productivity analysis in 2020, however we do not consider a further study to be necessary at this point in time.’⁹³

The Essential Services Commission’s advice to the Minister for 2023–24 and 2024–25 had greater regard for the actual cost pressures facing councils, however, the rate cap for those years was still set in line with the CPI.⁹⁴

The Committee believes that given the evidence this Committee has received in relation to cost pressures faced by local Government, it is time for the Essential Services Commission to re-visit the efficiency review they decided not to undertake

⁸⁸ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 11.

⁸⁹ LG FinPro, *Submission 11*, Attachment 2, p. 6.

⁹⁰ Essential Services Commission, *Advice on the Average Rate Cap, 2016–17*.

⁹¹ Essential Services Commission, *Advising a local government efficiency factor*, 2018, p. 6.

⁹² Essential Services Commission, *Advising a local government efficiency factor*, 2018, p. 7.

⁹³ Essential Services Commission, *Advice on the average rate cap, 2020–21*, p. 2.

⁹⁴ Essential Services Commission, *Advice on the average rate cap, 2023–24*, p. 1; Essential Services Commission, *Advice on the average rate cap, 2024–25*, p. 1.

in 2020. Such a review should have regard for whether a 100% weighting of the CPI is appropriate, or whether a local government cost index should be used that would give weighting to the Wage Price Index and construction costs.

RECOMMENDATION 11: That the Essential Services Commission conduct a review of the rate cap formula. Such a review should consider whether a local government cost index should be used that would give weighting to the Wage Price Index and construction costs and have regard for the capacity of ratepayers to bear higher rates.

Chapter 5

Grants

5.1 Overview

We are very dependent on revenue streams that we do not substantially control ourselves and that are awarded to us at the discretion of state and federal governments.

Sarah Brindley, Wangaratta Rural City Council, *Transcript of evidence*, 4 September 2024, p. 45.

The Committee heard from many councils and stakeholders who discussed their experiences with current grant programs and processes. This Chapter reflects these views, makes findings and recommends improvements, specifically in relation to:

- the types of grant programs available to councils (see Section 5.2)
- the grant application process (see Section 5.3)
- the Commonwealth's Financial Assistance Grant program (see Section 5.4)
- the Disaster Recovery Funding Arrangements program (see Section 5.5)
- road grants (see Section 5.6); and
- the Growing Suburbs Fund (see Section 5.7).

5.1.1 Types of grant programs

Councils are allocated grant funding or can decide to apply for it via a competitive grant process.

Grant programs can provide either 'tied' or 'untied' funding. Tied funding is provided for a specific purpose and must be acquitted accordingly. Untied funding is the opposite – in that councils can decide how they use and acquit the funding.

Both the Commonwealth and Victorian Governments administer grant programs which support councils in various ways.

Commonwealth grant programs

The Commonwealth Government provides the Financial Assistance Grant program. Financial Assistance Grants are made up of a general purpose and a local roads

component. Both components are united, allowing councils to 'spend grants according to local priorities'.¹

The Financial Assistance Grant program is largely allocated according to the concept of 'relative need'. This means that rural and regional councils generally receive a higher per capita allocation of the grant. The Committee heard that without Financial Assistance Grant funding, rural and regional councils are 'absolutely unsustainable'.² A dependence upon grants as a source of funding is typically not shared by larger metropolitan councils who have greater capacity to raise alternative revenue. Financial Assistance Grants are discussed in detail at Section 5.4.

The Commonwealth Government also administers several capital grant programs. For example, the Roads to Recovery program. These grants are generally competitive, not recurrent in nature and subject to the political priorities of the Commonwealth Government. Some Commonwealth capital grant programs are discussed at Section 5.6.

State grant programs

The Victorian Government provides a range of operational grants to councils. For example, grants to support the running of libraries, maternal and child health services and school crossing supervision services. However, over time, these grants have been reduced, and the Government has increasingly failed to fulfill its funding commitments, leaving councils to absorb the shortfall. Chapter 6 discusses these operational grant programs in the context of cost shifting. As such, Victorian Government operational grants are not discussed further in this Chapter.

The Victorian Government also administers several capital grant programs. For example, the Growing Suburbs Fund. As is the case with Commonwealth capital grants, Victorian capital grants are typically competitive, not recurrent and subject to political priorities. The Growing Suburbs Fund is discussed at Section 5.7.

5.2 Issues with the types of grant programs

The Committee heard that councils:

- seek more united, less competitive grant programs (see Section 5.2.1)
- seek longer-term grant arrangements (see Section 5.2.2)
- noted that grant programs don't always align with council priorities (see Section 5.2.3)

1 Commonwealth Government, Department of Infrastructure, Transport, Regional Development, Communication and the Arts, *Financial Assistance Grant to Local Government*, <<https://www.infrastructure.gov.au/territories-regions-cities/local-government/financial-assistance-grant-local-government>> accessed 22 October 2024.

2 Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 5.

- noted grant programs can contribute to resourcing challenges (See Section 5.2.4); and
- seek grant programs for asset renewal (see Section 5.2.5).

5.2.1 Councils seek more untied, less competitive grant programs

Several councils advocated for more untied grant programs, stating that it would best support local decision making and efficiency.³

The Committee heard that united grant programs, such as the Commonwealth's Financial Assistance Grant program, are 'worth three or four times its weight in gold because of [councils] capacity to use discretion and the community's aspirations'⁴ to invest in the services and infrastructure it needs. Untied grants were described as:

More agile, more flexible, more responsive, and certainly more streamlined in terms of acquitting.⁵

The Municipal Association of Victoria (MAV) considers that united grant programs are 'a more sustainable way to fund local government moving forward'.⁶ The Committee heard that requiring councils to compete for inflexible funding is a 'very costly and inefficient process'⁷ that disadvantages smaller councils with less resources, especially those in rural and regional areas.

The Committee heard that most grant funding provided by the Victorian Government is provided on a tied basis. Mornington Peninsula Shire Council stated that:

The relationship between the state and the sector in Victoria is – if I wanted to define it crudely, it is almost a parent-child relationship that we have with the state at the moment, where the state decides what we are going to get, how we are going to implement it and what it is going to look and feel like. There is not very much opportunity for us to feed back in the way I would expect to see a peer-to-peer relationship managed.⁸

Council's desire for increased united funding can be contrasted against the position of Council Watch, a rate-payers advocacy group. Council watch advocated for increased tied funding that required council to demonstrate how funds were expended.⁹ It noted:

³ For example, see City of Ballarat, *Submission 41*, p. 4, City of Geelong, *Submission 73*, p. 3.

⁴ Troy Edwards, Executive Director Corporate Services, City of Greater Geelong, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 29.

⁵ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 60.

⁶ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 24.

⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 14.

⁸ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 6.

⁹ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 72.

One of the things that really disappoints us is that when you give an untied grant it could go anywhere – it could go to the actual item – but what that does is it allows councils to then say, ‘The money that we had sitting there for that item that we were going to prioritise we’ll now shift off into something else. Council Watch would like to see much more prescriptive terms around outcomes in funding.’¹⁰

FINDING 25: Most councils advocate for increased untied funding from the Victorian Government. Councils state that untied funding would allow for more flexible expenditure of funds according to local needs and wouldn’t require councils to incur significant costs applying to competitive tied grant processes.

RECOMMENDATION 12: That the Victorian Government should increase untied funding to councils within specific categories, such as roads, to allow councils greater flexibility in addressing local needs and to reduce the costs and administrative burden of applying for competitive, tied grants.

5.2.2 Councils seek longer-term grant arrangements

The Committee heard that several councils consider that multi-year funding arrangements would afford greater ‘stability and predictability’.¹¹

Councils are required to develop 10-year financial plans.¹² This is challenging when many grant programs are determined on a year-on-year basis. As a result, 10-year financial plans include assumptions around what grant funding may be obtained by council during this period. The Committee heard that multi-year grant arrangements would afford councils more certainty, so that they ‘are not left out of pocket’¹³ and can conduct ‘adequate project planning’¹⁴ as part of 10-year financial plan cycles.

Mildura Rural City Council noted that councils who are more dependent on grant funding are also more vulnerable to priority changes by other levels of government.¹⁵ A lack of certainty as to whether grant programs will continue represents a financial sustainability risk to councils, as often services or infrastructure maintenance will need to continue regardless of grant funding availability. For example, East Gippsland Shire Council highlighted the discontinuation of the regional airport funding stream.¹⁶ This program provided ‘necessary funds to connect remote communities to services such as air-based medical services and air-based emergency responses’.¹⁷ Discontinuation

¹⁰ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 72.

¹¹ Glen Eira City Council, *Submission 29*, p. 5.

¹² *Local Government Act 2020* (Vic), s. 91.

¹³ Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 45.

¹⁴ Greater Ballarat Alliance of Councils, *Submission 92*, p. 4.

¹⁵ Mildura Rural City Council, *Submission 72*, p. 14.

¹⁶ East Gippsland Shire Council, *Submission 53*, p. 7.

¹⁷ East Gippsland Shire Council, *Submission 53*, p. 7.

of this grant program meant that East Gippsland Shire Council needed to fund these services via other sources in circumstances where it had not planned to do so.¹⁸

FINDING 26: Reliable multi-year grant arrangements would provide councils with more certainty, stability and predictability.

5.2.3 Grant programs don't always align with council priorities

The Committee heard that grant programs are not always 'fit for purpose'¹⁹ or well aligned with what councils understand their community needs to be.

The City of Greater Geelong emphasised that councils 'do a lot of work on master planning'²⁰ and 'longer-term community needs analysis'.²¹ Some councils considered that there was a mismatch between the council priorities that emerge from such processes and what other levels of government believe the need is.²² Councils emphasised that community needs are very hard to meet if the available tied funding opportunities do not address the strategic areas council wishes to pursue.²³

Whilst the Committee heard that all grant funding is appreciated by councils, councils stated that they would often decide to spend funding elsewhere if they could, to better meet the needs of their community.²⁴

RECOMMENDATION 13: That the Victorian Government should ensure it consults the local government sector before releasing new grant programs to ensure it aligns with current community needs and strategic priorities.

5.2.4 Grant programs can contribute to resourcing challenges

The Committee heard that many grant programs support the development of new infrastructure – or as put by Macedon Ranges Shire Council, 'new and shiny things'.²⁵

¹⁸ East Gippsland Shire Council, *Submission 53*, p. 7.

¹⁹ LaTrobe City Council, *Submission 59*, p. 5.

²⁰ Troy Edwards, Executive Director Corporate Services, City of Greater Geelong, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 29.

²¹ Troy Edwards, Executive Director Corporate Services, City of Greater Geelong, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 29.

²² For example, see: Hepburn Shire Council, *Submission 65*, p. 3 and Andrew McLeod, Director Corporate Services, Hobsons Bay City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 17.

²³ For example, see: Ed Small, Director Corporate and Governance Services, Moyne Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 56.

²⁴ For example, see: Ed Small, Director Corporate and Governance Services, Moyne Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 56.

²⁵ Adele Drago-Stevens, Director Corporate Services, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 60.

Councils emphasised that whilst such grant programs facilitate the construction of much appreciated and loved assets, like aquatic centres or performing arts centres, it also increases councils operating and maintenance costs in the long term.²⁶ These whole-of-life costs are not covered by grant programs but need to be covered by councils via other sources of funding. Moonee Valley City Council told the Committee that few councils can recoup whole-of-life through fees and charges alone.²⁷ An inability to afford whole-of-life costs will likely discourage smaller, less resourced councils from putting in grant applications for valuable new community assets.²⁸

Indigo Shire Council provided an apt example that illustrates how new asset grant programs have long term implications upon councils.²⁹ It told the Committee that following the Melbourne Olympics in 1956, it was the recipient of grant funding to build local aquatic centres. These pools were described as ‘very precious’³⁰ to their local communities. Indigo Shire Council noted that five pools are reaching the end of asset life and will soon need replacing. This is estimated to cost \$10 to \$15 million per pool.³¹ It stated:

There is no way known we can replace them without help, but no funding opportunities come near funding pools.

This is an emerging problem. We are going to see a whole lot more pools fall over in the next 10 to 20 years with no way for those small shires to be able to fund those. Communities will have to give up on them, and that is really unfair too. Especially with climate change and things like that, pools and ways to keep people cool will become more and more important.³²

The Committee also heard that grant programs which support service delivery can also have long-term resourcing implications. Hobsons Bay City Council noted that even in circumstances where grant funding is withdrawn, the ‘community often expects these services to continue, placing additional pressure on Council to maintain them’.³³

FINDING 27: Council asset pools requiring management exacerbate financial sustainability challenges for councils in the long term. This is of particular concern to smaller, rural and regional councils who have more a limited financial capability to meet ongoing operating, maintenance and renewal costs.

²⁶ For example, see Steven Piasente, *Transcript of evidence*, 4 September 2024, p. 35.

²⁷ Moonee Valley Shire Council, *Submission 40*, p. 8.

²⁸ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

²⁹ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

³⁰ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

³¹ Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

³² Phil Cantillion, Chief Executive Officer, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 16.

³³ Hobsons Bay City Council, *Submission 32*, p. 10.

FINDING 28: Limited capacity to meet long term operating, maintenance and renewal costs is deterring smaller rural and regional councils from applying for new asset grant programs.

5.2.5 Councils seek grant programs for asset renewal

Councils emphasised that grant programs which support asset renewal would be very well received and highly valued by the sector.³⁴

The Committee heard that ‘one of the biggest challenges in the sector is balancing renewal with new’.³⁵

Whilst grants for the construction of new assets were described as ‘great ribbon cutting opportunities’³⁶ and ‘feel good projects’,³⁷ councils emphasised that they really need support to manage sizeable renewal backlogs and liabilities.³⁸ Renewal challenges are particularly evident in small, rural and regional councils. Murrindindi Shire Council told the Committee that:

While urban areas with stronger political clout receive grants for flashy, high-cost projects like \$100 million leisure centres and galleries, rural councils struggle to fund basic infrastructure renewals. Like other small councils in our area, we have old swimming pools at the end of their asset lives. These are the very basic 25-metre open pools, possibly with a shade cloth, that provide much relief during hot summers. They require renewal possibly costing \$3 million or \$4 million, money that we do not have and money that is not available in the grants program. This inequity highlights the need for a funding program that prioritises the renewal and maintenance of essential infrastructure.³⁹

Several councils called for grant programs that prioritise asset renewal and maintenance.⁴⁰

RECOMMENDATION 14: That the Victorian Government should look to provide grant programs wherever possible that support asset renewal and maintenance to address growing asset renewal backlogs and the needs of local communities.

³⁴ For example, see: Cr Tony Marwood, Deputy Mayor, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

³⁵ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 6.

³⁶ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

³⁷ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

³⁸ For example, see: Mitchell Shire Council, *Submission 81*, p. 6.

³⁹ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 15.

⁴⁰ For example, see: Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 15.

5.3 Issues with the grant application process

Applying for grants has never been more onerous or costly.

Mitchell Shire Council, *Questions on Notice*, 21 August 2024, p. 4.

The Committee heard that many councils experience challenges applying to grant programs, including issues with:

- writing resource intensive grant applications (see Section 5.3.1)
- meeting significant upfront design and scoping costs (see Section 5.3.2)
- accommodating co-contribution requirements (see Section 5.3.3)
- meeting tight timeframes and responding to delays (see Section 5.3.4)
- onerous grant auditing and reporting requirements (see Section 5.3.5); and
- meeting other grant requirements (see Section 5.3.6).

5.3.1 Writing grant applications is resource intensive

Councils are required to prepare grant applications for consideration by the relevant authority. The Committee consistently heard that writing grant applications is a 'lengthy and human resource intensive'⁴¹ exercise.

Campaspe Shire Council told the Committee that councils must be 'very good'⁴² at preparing grant applications in order to be successful. This is because the reality of competitive grant processes is that councils are in competition 'with the rest of the country sometimes and the rest of the state at other times'.⁴³

Several councils told the Committee that despite experiencing financial challenges, they feel compelled employ additional staff or engage expensive external consultants for the sole purpose of preparing grant applications.⁴⁴ This represents a significant financial risk for councils with limited resources, particularly because grant funding outcomes are not guaranteed.

⁴¹ Mitchell Shire Council, *Inquiry into Local Government funding and services hearings*, response to questions on notice received 25 September 2024, p. 4.

⁴² Cr Tony Marwood, Deputy Mayor, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁴³ Cr Tony Marwood, Deputy Mayor, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁴⁴ For example, see: Daniel McLoughlan, Acting Chief Executive Officer, Buloke Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25; Tammy Smith, Chief Executive Officer, Yarriambiack Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 42.

Other councils expressed an inability to allocate or attract sufficient resources to support the writing of grant applications. This is particularly true for small and large shire councils. Mildura Rural City Council told the Committee:

Regional councils struggle to be able to attract and afford a full-time grants officer who has the necessary expertise to prepare a business case and submission for grant applications.⁴⁵

Mansfield Shire Council told the Committee:

Small councils like ours do not have specific roles for experienced staff in grant writing or significant labour to complete the administrative burden of applications.⁴⁶

A lack of resources to prepare grant applications puts poorer resourced councils 'at a disadvantage in being able to address the issues in their community'⁴⁷ via a competitive grants process. The MAV told the Committee:

We often say that grant funding is more a measure of the council's capacity to write a good grant application than it is to actually deal with the core issue that they are seeking funding for.⁴⁸

Consequently, valuable grant funding may not end up 'directed to deserving projects'⁴⁹ solely because a council may not have the resources to develop a competitive grant application. East Gippsland Shire Council considers that:

If more grants were based on need rather than grant writing skills, there would be a productivity dividend for all tiers of government with time otherwise directed to writing and assessing funding submissions streamlined and redirected to other necessary tasks.⁵⁰

The Committee heard that councils 'would like to see more grants based on need, rather than competitive grant writing skills'⁵¹ or 'seed funding set up for some of the smaller councils'⁵² to offset the disadvantage that flows from having lower grant writing proficiency or resourcing.

FINDING 29: Failing to acknowledge resource disparities between councils may result in grant funding being diverted away from deserving projects in rural and regional areas to councils with the capacity to prepare high quality grant applications.

⁴⁵ Mildura Regional City Council, *Submission 72*, p. 15.

⁴⁶ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, pp. 55–56.

⁴⁷ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 19.

⁴⁸ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 19.

⁴⁹ East Gippsland Shire Council, *Submission 53*, p. 7.

⁵⁰ East Gippsland Shire Council, *Submission 53*, p. 7.

⁵¹ East Gippsland Shire Council, *Submission 53*, p. 7.

⁵² Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 31.

5.3.2 Grant applications require upfront design and scoping investment

The Committee heard that the state and Commonwealth governments are increasingly requiring councils to undertake significant preliminary works as part of their grant application. This is because many grant programs typically preference more advanced, 'shovel ready' projects. Being 'shovel ready' can require scoping work, business cases, 'detailed design, planning permits, and a range of other steps to be completed'⁵³ before councils can submit a grant application.

Mitchell Shire Council estimates that for most moderate infrastructure projects getting 'shovel ready' 'requires an upfront investment in the range of \$500,000+ and can often be substantially higher'.⁵⁴ Campaspe Shire Council echoed this estimate, noting a recent full cost and design required a 'half a million dollars'⁵⁵ investment.

The Committee heard that very few councils have sufficient 'resources to have a lot of projects sitting on the shelf waiting to be funded'.⁵⁶ The City of Greater Geelong told the Committee that it was expected they complete planning and scoping work as part of a grant application:

Places financial burden on local government without certainty of revenue to support delivery on this investment. It also creates a challenge to local government in strategic planning and resourcing, and importantly, in managing the expectations of community.⁵⁷

Campaspe Shire Council emphasised that this is a heavy burden to place upon already struggling councils, particularly those in rural and regional areas, noting 'We are already trying to stretch our funds to deliver what is needed now.'⁵⁸

Pyrenees Shire Council emphasised that the significant cost involved in preparing grant applications 'could be better spent on direct service provision to the community'.⁵⁹

The Committee also heard that two-stage funding grant programs entrench the expectation that preliminary works be completed in order to participate in grant programs. Two-stage funding programs involve an initial expression of interest stage

⁵³ Mitchell Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 25 September 2024, p. 4.

⁵⁴ Mitchell Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 25 September 2024, p. 4.

⁵⁵ Cr Tony Marwood, Deputy Mayor, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁵⁶ Daniel McLoughlan, Acting Chief Executive Officer, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁵⁷ City of Greater Geelong Council, *Submission 73*, p. 12.

⁵⁸ Campaspe Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice attachment 1, received 26 September 2024,

⁵⁹ Jim Nolan, Chief Executive Officer, Pyrenees Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 56.

that vets or filters projects to progress to round two of the grant program. Buloke Shire Council told the Committee that ‘if you do not have that full design done, then you are very unlikely to make the second stage’.⁶⁰ Buloke Shire Council expressed concern that two-stage funding grant programs:

Will make it a lot harder for councils like Buloke to be able to apply for the funding, because we will have to apply for less and be a lot more targeted to make sure we have got our designs, our quantity surveys and our costings to the level they need to be in that first stage.⁶¹

Expecting councils to fund preliminary works is of particular concern to small and large shire councils. Gannawarra Shire Council warned the Committee that:

There needs to be some modelling around what that looks like in the context of not creating a Third World Victoria where there are no services.⁶²

Councils applauded grant streams that fund councils to undertake these preliminary works, such as feasibility, scoping and design work.⁶³ The Committee heard that councils would like to see more of these streams, which provide specific funding in acknowledgement of the disparity in resources and the disadvantage this can create.⁶⁴

FINDING 30: Requiring councils to undertake substantial preliminary works to participate in grant programs has the potential to entrench disadvantage between well-resourced and lesser-resourced councils in Victoria.

RECOMMENDATION 15: That the Victorian Government review the grant application process with a view to simplifying it.

RECOMMENDATION 16: That the Victorian Government provide additional grant writing support for smaller councils.

⁶⁰ Daniel McLoughlan, Acting Chief Executive Officer, Buloke Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁶¹ Daniel McLoughlan, Acting Chief Executive Officer, Buloke Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

⁶² Geoff Rollinson, Chief Executive Officer, Gannawarra Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 50.

⁶³ For example, see Campaspe Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 26 September 2024.

⁶⁴ For example, see Campaspe Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 26 September 2024.

5.3.3 Some councils can't accommodate co-contribution requirements

Grant programs often require a financial co-contribution from council applicants (for example 1:1, 2:1 or 3:1 contributions).

The Committee heard that many councils find it very difficult to meet the co-contribution requirements of grant programs. In other cases, councils are unable to meet co-contribution requirements, ultimately excluding such councils from participation in grant programs.

Hindmarsh Shire Council told the Committee that in circumstances where the council is unable to fund co-contribution amounts, the burden of raising sufficient funding can fall to the community. Hindmarsh noted multiple instances where community groups sought to raise co-contribution amounts to apply for particular grant programs, for example grant programs to replace damaged sporting facilities. Yarriambiack told the Committee that 'council's and communities should not be required to raise funds, as a co-contribution, to maintain, renew and upgrade state owned assets.'⁶⁵

Co-contribution requirements disadvantage small and large shire councils who lack the resources to be able to make these contributions. The Committee heard that some such councils are 'starting to sometimes say no to grants'⁶⁶ due to co-contribution requirements. As a result, lesser resourced councils miss out on the benefits that flow from being awarded additional grant funding to be spent in their communities.

FINDING 31: While co-contribution grant programs can be beneficial in delivering an increased number of services, this requirement prevents some lesser resourced smaller rural and regional Councils from applying for grants.

RECOMMENDATION 17: That the Victorian Government ensure grant programs take account of council financial capacity with respect to co-contribution requirements.

5.3.4 Timeframes and delays can create issues for councils

In 2024, the average open time for a grant opportunity has been 67 days.⁶⁷

As discussed at Section 5.2.2, grant programs often require councils to undertake significant preliminary works as part of their application. This may include the 'release of officers from business-as-usual to coordinate and develop an application, to secure

⁶⁵ Yarriambiack Shire Council, *Submission 45*, p. 6.

⁶⁶ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 11.

⁶⁷ City of Greater Geelong, *Submission 73*, p. 14.

approvals, follow internal procurement processes, consult with the community, obtain approvals from council etc'.⁶⁸

The Committee heard that some councils find it incredibly difficult to prepare grant applications within the advertised timeframes.⁶⁹ These challenges are greater in smaller or less resourced councils, such as those in rural and regional areas. An inability to prepare grant applications within specified timeframes may operate to exclude smaller or less resourced councils from applying.

The Committee also heard that whilst grant guidelines typically provide clear timeframes as to when applicants can expect to hear if an application has been successful, over recent years these dates can blow out by up to 3 months.⁷⁰ Delays in response timeframes can have significant impacts upon the delivery of successful projects. The City of Greater Geelong, in their submission to the Committee, noted that such impacts can include:

- Quotes are no longer valid, new quotes can result in an escalation of project costs before the project starts, impacting Council budgets and financial projections.
- Contractors may no longer be available, in regional locations where smaller markets exist this creates a real risk to the successful delivery of the project and risks non-compliance with completion timelines.
- Officers have moved onto other projects, creating a resourcing risk, which potentially could result in additional project costs not previously anticipated.
- Community confidence in local government's consultation process is negatively impacted, when community does not receive an outcome within the anticipated timeline, they lose trust in Council.
- Officer morale is negatively impacted as they wait to hear the outcome on anticipated works that they are heavily invested in delivering.⁷¹

Cost escalations can have particularly severe impacts upon councils in this 'high inflation environment'⁷² which make it 'even more challenging to complete infrastructure projects within the original budget'.⁷³

RECOMMENDATION 18: That the Victorian Government respond to grant applications within advertised timeframes to avoid creating delivery challenges and cost escalations.

⁶⁸ City of Greater Geelong, *Submission 73*, p. 14.

⁶⁹ For example, see: Bhan Pratap, Director Corporate Services, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 5.

⁷⁰ City of Greater Geelong, *Submission 73*, p. 14.

⁷¹ City of Greater Geelong, *Submission 73*, p. 14.

⁷² City of Ballarat, *Submission 41*, p. 4.

⁷³ Hepburn Shire Council, *Submission 65*, p. 4.

5.3.5 Grant auditing and reporting is too onerous

Auditing and reporting requirements are a common feature of grant programs. The level of assurance or reporting that is required can differ according to the specific grant program.

Councils acknowledge that auditing and reporting requirements ‘provide accountability and transparency to the Victorian community’⁷⁴ and ensure grant funds have been utilised appropriately. However, the Committee heard that current auditing and reporting requirements can be overly ‘time consuming and resource intensive, due to the frequency of reporting and the level of detail often required’.⁷⁵ The requirements of some grant programs were described as so onerous that the program ‘is not worth applying for because of the amount of work’⁷⁶ involved in complying with auditing and reporting requirements.

The Committee heard that ‘local government should be considered a trusted partner by other levels of government’.⁷⁷ Councils emphasised that they would like to see ‘onerous reporting requirements eased’⁷⁸ and ‘layers of the bureaucracy’ reduced so that resources can be better directed towards ‘delivering the project, as opposed to making sure the project is on track’.⁷⁹

FINDING 32: Overly onerous auditing and reporting requirements are deterring smaller and less-resourced councils from participating in important grant programs.

RECOMMENDATION 19: That the Victorian Government review the auditing and reporting requirements of its grant programs to ensure that compliance is not so onerous that it deters smaller or less-resourced councils from participation, particularly those in rural and regional areas.

5.3.6 Other grant requirements

The Committee heard from Mansfield Shire Council who highlighted its recent experience with two specific grant requirements, which included:

- The use of mandatory embedded consultants with high hourly rates;⁸⁰ and

⁷⁴ Moonee Valley Shire Council, *Submission 40*, p. 7.

⁷⁵ Yarriambiack Shire Council, *Submission 45*, p. 7.

⁷⁶ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 53.

⁷⁷ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 53.

⁷⁸ Tammy Smith, Chief Executive Officer, Yarriambiack Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 42.

⁷⁹ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 53.

⁸⁰ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 57.

- The removal of nine per cent of awarded grant funding to cover internal state department costs.⁸¹

Mansfield Shire Council noted that it would typically minimise the use of consultants and seek to 'do things in-house'.⁸² They noted that the 'scoping phase of the grant'⁸³ strongly encouraged the council to use an 'embedded consultant to get through that scoping phase in order to develop scopes that would then be funded by the department'.⁸⁴

Mansfield Shire Council also noted that following a recent award of grant funding, nine per cent of that funding was removed by the state government in the funding agreement.⁸⁵ This equated to \$176,000.⁸⁶ Mansfield Shire Council described this as 'a big blow',⁸⁷ noting that it considered the council should not subsidise the departments oversight of the project as the department 'are not taking the risk on the project'⁸⁸ nor are 'they are not contributing to the project'.⁸⁹

Kirsten Alexander, CEO of Mansfield Shire Council, said during a public hearing:

Just some examples in terms of some funding shortfalls: council had to borrow \$2.6 million in order to complete the heavy vehicle alternate route around Mansfield, and that was a project that we did receive some Commonwealth funding for dating back as far as I think 2017, but no state funding as far as I am aware was supplied to that project despite some requests for some matching funding where we intersect with state roads. We have had difficulties in relation to a black spot location on Mansfield-Whitfield Road, and we have tried to seek a state contribution to that road. It is at a place where a council road and a state road intersect. It is a black spot. It has had a fatality. We were recently awarded, after several attempts from our small team to try and get Commonwealth funding for that location, \$2 million, but we were quite dismayed to find out that 9 per cent of that funding was removed by the state in the funding agreement we were given to sign. That was a big blow, because that is equivalent to our project management costs, and we have written to the state asking for that to be reinstated. The stated reason for that funding being removed was that it

⁸¹ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 57.

⁸² Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 59.

⁸³ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 58.

⁸⁴ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 58.

⁸⁵ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 58.

⁸⁶ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 58.

⁸⁷ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 56.

⁸⁸ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 61.

⁸⁹ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 61.

was for internal department costs, but needless to say, that was a surprise, and not a welcome one.⁹⁰

FINDING 33: The Victorian Government took nine per cent of a \$2 million federal blackspot grant intended for a state and local council road intersection project under the guise of ‘internal department costs’, despite not overseeing or contributing financially to the project.

RECOMMENDATION 20: That the Victorian Government should not take money out of Commonwealth Government grants allocated to local councils.

5.4 Commonwealth Financial Assistance Grants

The Commonwealth Government provides Financial Assistance Grants to states and territories for the purpose of improving:

- the financial capacity of councils
- the capacity of councils to provide their residents with an equitable level of services
- the certainty of funding for councils
- the efficiency and effectiveness of councils; and
- the provision by councils of services to Aboriginal and Torres Strait Islander communities.⁹¹

Financial Assistance Grants are made up of two components:

- a general-purpose component, that is distributed between states and territories according to population; and
- an identified local roads component, that is distributed between states and territories according to fixed historical shares.⁹²

Both components of the Financial Assistance Grant are united. This allows councils to ‘spend grants according to local priorities’.⁹³

⁹⁰ Kristen Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 56.

⁹¹ *Local Government (Financial Assistance) Act 1995*, s 3(2).

⁹² Commonwealth Government, Department of Infrastructure, Transport, Regional Development, Communication and the Arts, *Financial Assistance Grant to Local Government*, <<https://www.infrastructure.gov.au/territories-regions-cities/local-government/financial-assistance-grant-local-government>> accessed 22 October 2024.

⁹³ Commonwealth Government, Department of Infrastructure, Transport, Regional Development, Communication and the Arts, *Financial Assistance Grant to Local Government*, <<https://www.infrastructure.gov.au/territories-regions-cities/local-government/financial-assistance-grant-local-government>> accessed 22 October 2024.

The Committee heard that Financial Assistance Grants ‘have long been an important and reliable revenue source for local government’⁹⁴ that enables councils to ‘plan projects with certainty and deliver them in a more efficient, cost-effective way’.⁹⁵

5.4.1 Allocations of grant funding

The Victorian Local Government Grants Commission is responsible for recommending how the federal Financial Assistance Grant be distributed amongst councils. Recommendations must be made in line with the relevant national principles, which require funding to be allocated:

- on a full horizontal equalisation basis, as far as practicable
- using an effort or policy neutral approach
- in accordance with minimum grant requirements (see Section 5.4.2)
- in recognition of any other relevant grants to councils
- in recognition of the needs of Aboriginal and Torres Strait Islander people; and
- in recognition of council amalgamation, if applicable.⁹⁶

The Victorian Local Government Grants Commission also recommends the allocation of local roads grant based on the relative needs in maintaining local roads, considering road length, traffic volumes, climate, freight and sub-grades⁹⁷ (see Section 5.6).

Whilst the national principles are intended to guide the allocation of funding at a state level, Collin Morrison, Executive Officer of the Victorian Local Government Grants Commission, told the Committee, ‘There is some flexibility as to the sorts of factors and needs that are taken into account.’⁹⁸

Put simply, Victoria allocates its Financial Assistance Grant funding to councils based on ‘relative need’. Councils who are determined to have the highest relative needs in the state receive higher grants on a per capita basis. Mr Morrison described the assessment of ‘relative need’ as involving:

An allocation formula that we have developed in consultation with councils over the years and modified over that time to incorporate a range of information about each

⁹⁴ City of Ballarat, *Submission 41*, p. 4.

⁹⁵ City of Ballarat, *Submission 41*, p. 4.

⁹⁶ *Local Government (Financial Assistance) Act 1995*, s. 6, Commonwealth Government, Department of Infrastructure, Transport, Regional Development, Communication and the Arts, *National Principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995*, <<https://www.infrastructure.gov.au/territories-regions-cities/local-government/financial-assistance-grant-local-government/national-principles-allocation-grants>> accessed 22 October 2024.

⁹⁷ FinPro, *Submission 11c*, p. 30.

⁹⁸ Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 4.

local government area, the characteristics of the council and the characteristics of the community that that council serves.⁹⁹

Local Government Finance Professionals (FinPro), in its submission to the Committee, explained the allocation formula in the following way:

For each council, the raw grant is calculated by subtracting the council's standardised revenue from its standardised expenditure. The standardise expenditure is calculated for each council on the basis a council's recurrent expenditure on nine expenditure functions. The nine expenditure functions are: Governance, Family and Community Services, Aged and Disables Services, Recreation and Culture, Waste Management, Traffic and Street Management, Environment, Business and Economic Services, and Local Roads and Bridges.¹⁰⁰

Expenditure function data is then adjusted using 12 weighted costs adjustors.¹⁰¹ These cost adjustors are 'measures designed to reflect differences between councils'¹⁰² and are used to assist the Commission take into account 'the particular characteristics of individual councils which impact on the cost of service provision on a comparable basis'.¹⁰³ These cost adjustors are:

- aged pensioners
- economies of scale
- environmental risk
- indigenous population
- language
- population dispersion
- population growth
- population less than 6 years
- regional services
- remoteness
- socio-economic; and
- tourism.¹⁰⁴

⁹⁹ Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 4.

¹⁰⁰ FinPro, *Submission 11c*, p. 20.

¹⁰¹ FinPro, *Submission 11c*, p. 20.

¹⁰² Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 16.

¹⁰³ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 16.

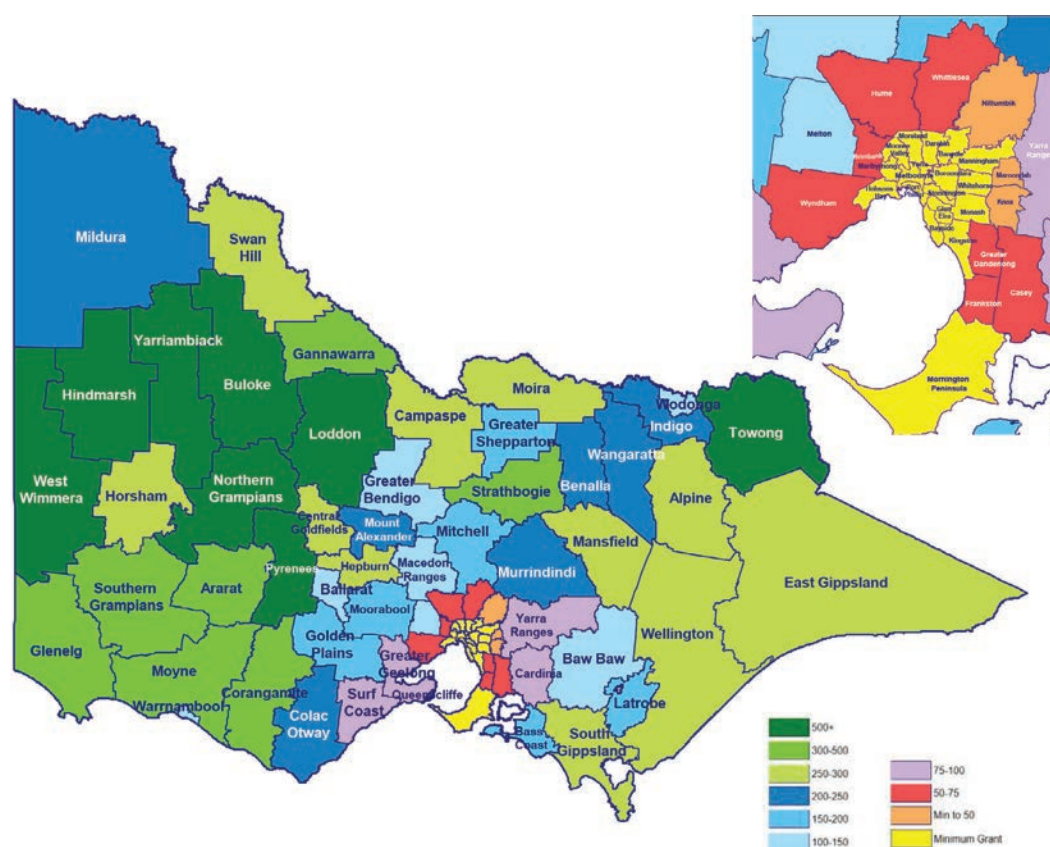
¹⁰⁴ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 16.

An intended consequence of allocating grant funding on the basis of ‘relative need’ is that some councils receive more funding on a per capita basis than other councils. Common characteristics of councils that are determined to have high ‘relative need’ are:

Very small populations, each individually less than 8000 people; a very large area, each individually greater than the Melbourne metropolitan area in area; long lengths of local roads to serve; a small but highly dispersed population; a very low capacity to raise revenue from rates; and often issues around socio-economic disadvantage as well.¹⁰⁵

In 2024–25, the largest recommended general-purpose grant, on a per capita basis, was allocated to West Wimmera Shire Council, ‘where the recommended grant allocation of \$4.393 million represents \$1,116.85 per head of population’.¹⁰⁶ 18 councils received a minimum general-purpose grant, representing \$25.60 per head of population.¹⁰⁷

Figure 5.1 General purpose grants (per capita), 2024–25



Source: Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 22.

¹⁰⁵ Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, pp. 4–5.

¹⁰⁶ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 22.

¹⁰⁷ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 22.

FinPro acknowledged that when it comes to distributing financial assistance grants, 'it is tough to get it right across 79 councils'.¹⁰⁸ Although, FinPro concluded that the current 'horizontal equalisation methodology applied by the Victorian Local Government Grants Commission is effective and results in a fair outcome for most councils'.¹⁰⁹

This view is shared by some councils, including the Pyrenees Shire Council, who told the Committee that Financial Assistance Grants are 'distributed through a well-established formula that is generally supported by the sector'¹¹⁰ and Macedon Ranges Shire Council who described the current methodology as 'robust'.¹¹¹

Criticisms of current methodology

The Committee also heard from several Councils who criticised the current methodology used by the Local Government Grants Commission to distribute Financial Assistance Grants. Livia Bonazzi, CEO of Murrindindi Shire Council, stated:

The system and the formulas that the Victorian grants commission adopts in theory are designed to look after small councils like us. In practice they are not necessarily working that way.¹¹²

Murrindindi Shire Council told the Committee that it receives 'significantly less per capita in grant allocation compared to other small rural councils'.¹¹³ It considers its allocation 'contradicts the Victorian grants commission's stated aim of providing greater subsidies to smaller, more financially vulnerable councils like ours'.¹¹⁴ Murrindindi concludes that the current cost adjusters 'are not effective'¹¹⁵ and advocates for 'some adjusters or compensation to identify those councils that are quite vulnerable financially, that are missing out and possibly deserve some extra boost'.¹¹⁶

The Committee also heard the Local Government Grants Commission methodology described as a 'pretty complex formula'¹¹⁷ that is not understood in full. A lack of clarity as to how the allocation calculations work make it more difficult for councils to ascertain whether they are getting their fair share of the Financial Assistance Grant, or why their allocation may be less than expected.

¹⁰⁸ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 45.

¹⁰⁹ FinPro, *Submission 11.c*, p. 23.

¹¹⁰ Pyrenees Shire Council, *Submission 96*, p. 2.

¹¹¹ Macedon Ranges Shire Council, *Submission 61*, p. 2.

¹¹² Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

¹¹³ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 15.

¹¹⁴ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 15.

¹¹⁵ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

¹¹⁶ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 20.

¹¹⁷ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 23.

The Committee acknowledges that the Local Government Grants Commission undertakes the following consultation with the sector:

1. Accepts written submissions that allow it to ‘consider modification of the methodologies to ensure that they consider to be relevant to the needs of councils’.
2. Conducts virtual statewide information sessions to ‘provide an overview of their methodology used in preparing its recommended allocations.
3. Meets with individual councils over a four-year cycle to provide more detailed overviews of the ‘Commission’s role and methodology, and how grant outcomes are determined’.¹¹⁸

The Committee considers that increased clarity may go some way to addressing dissatisfaction with allocation outcomes and streamline discussions with councils as to why particular allocations were made.

RECOMMENDATION 21: That the Victorian Local Government Grants Commission work with councils to ensure it is clearly understood how its methodology has determined the allocation of Commonwealth Financial Assistance Grants, to ensure greater transparency in the allocation of these grants.

The Committee also heard concerns that the current methodology applied by the Local Government Grants Commission does not adequately account for intense visitation periods or seasonal peaks in tourism.

Mansfield Shire Council and Mornington Peninsula Shire Council both highlighted how visitation periods places pressure on local services and resources.¹¹⁹ For example, Mansfield Shire Council told the Committee that its:

Proximity to Mt Buller and Lake Eildon can mean a threefold increase in population during peak periods, with some 20,000 daily visitors to the area during winter, consuming resources and requiring service from public facilities.¹²⁰

Both councils told the Committee that they considered that the current adjustments made by the Local Government Grants Commission did not sufficiently acknowledge the impact that peak visitation periods can have upon council services.¹²¹

Mornington Peninsula Shire Council called for an increase to the ‘tourism cost adjustor score to reflect the significant impact of tourism on council services’.¹²² Mansfield Shire

¹¹⁸ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, pp. 9–11.

¹¹⁹ Mornington Peninsula Shire, *Submission 82*, pp. 13–18; Mansfield Shire, *Submission 97*, p. 1; Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, pp. 56–57.

¹²⁰ Mansfield Shire, *Submission 97*, p. 1.

¹²¹ Mornington Peninsula Shire, *Submission 82*, pp. 13–18; Mansfield Shire, *Submission 97*, p. 1; Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, pp. 56–57.

¹²² Mornington Peninsula Shire, *Submission 82*, p. 18.

Council called for an additional ‘variable that adjusts for high visitation that puts pressure on resources and infrastructure’.¹²³

Mansfield Shire Council also called for an additional variable that specifically adjusts for alpine regions. This is due to the additional resources required to manage ‘challenging climatic conditions which impact on road condition and accelerate the deterioration of roads’.¹²⁴

Mornington Peninsula Shire Council also called for an additional variable that recognises the significant investment involved in managing extensive Crown Land coastal area, estimated to be \$11.7 million annually.¹²⁵

The Committee also heard that the Local Government Grants Commission could better recognise the needs of interface councils. Yarra Ranges Shire Council emphasised that interface councils often have ‘extensive road networks’¹²⁶ and are faced with the ‘complexity of delivering services to diverse communities that are widely geographically dispersed’.¹²⁷ Yarra Ranges Shire Council considered that the methodology applied by the Local Government Grants Commission should be reviewed to better recognise these needs.¹²⁸

The Committee also heard that the current method of calculating a council’s capacity to raise revenue from rates is flawed. Mornington Peninsula Shire Council told the Committee:

The current method of multiplying Council’s actual valuation base by the average rate in the dollar across all Victorian councils does not accurately represent Mornington Peninsula Shire Council’s capacity to raise revenue from rates and charges. This approach disadvantages councils like Mornington Peninsula Shire Council with higher property valuations and lower rate in the dollar, resulting in an overstatement of the rate revenue that is based on an incorrect assumption regarding capacity to raise rates.¹²⁹

Mornington Peninsula Shire Council considered that ‘utilizing budget data instead of CIVs multiplied by the state average rate would more accurately reflect the capacity to generate rates revenue’.¹³⁰

The MAV’s State Council held in August 2024, resolved to call upon the Victorian Grant Commission to review the ‘methodology used in determining the allocation of

¹²³ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, pp. 56–57.

¹²⁴ Mansfield Shire Council, *Submission 97*, p. 1.

¹²⁵ Mornington Peninsula Shire, *Submission 82*, p. 17.

¹²⁶ Yarra Ranges Shire Council, *Submission 75*, p. 9.

¹²⁷ Yarra Ranges Shire Council, *Submission 75*, p. 9.

¹²⁸ Yarra Ranges Shire Council, *Submission 75*, p. 9.

¹²⁹ Mornington Peninsula Shire, *Submission 82*, p. 17.

¹³⁰ Mornington Peninsula Shire, *Submission 82*, p. 14.

Commonwealth Financial Assistance Grants'¹³¹ to place greater emphasis upon issues facing rural communities. Murrindindi Shire Council was the submitting council and received support from 'more than 90 per cent of councils'.¹³²

The Committee considers that the Local Government Grants Commission should take into consideration the above input from councils in its annual review of the methodology it uses to allocate Financial Assistance Grants.

RECOMMENDATION 22: That the Local Government Grants Commission continue to review and refine the methodology it uses to allocate Commonwealth Financial Assistance Grants in meaningful consultation with councils.

5.4.2 Minimum grant requirements

The *Local Government (Financial Assistance) Act 1995* states that in formulating National Principles, the Minister:

Must ensure that no local governing body in a State will be allocated an amount under section 9 in a year that is less than the amount that would be allocated to the body if 30% of the amount to which the State is entitled under that section in respect of the year were allocated among local governing bodies in the State on a per capita basis.¹³³

In other words, 30% of Victoria's Financial Assistance Grant allocations must be distributed to Councils on a per-capita basis, rather than on a relative need's basis. As a result of the minimum grant requirement, all councils receive at least the minimum grant allocation of Financial Assistance Grant funding, even if a council has low relative need. In 2024–25, the minimum grant allocation is \$25.60 per capita and was received by 18 councils, including:

- Banyule
- Bayside
- Boroondara
- Darebin
- Glen Eira
- Hobsons Bay
- Kingston
- Manningham
- Maribyrnong

¹³¹ Municipal Association of Victoria, *MAV State Council Resolutions*, 23 August 2024, p. 10.

¹³² Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 14.

¹³³ *Local Government (Financial Assistance) Act 1995*, s. 6(2)(b).

- Melbourne
- Monash
- Moreland
- Mornington Peninsula
- Moonee Valley
- Port Phillip
- Stonnington
- Whitehorse; and
- Yarra.¹³⁴

Without the minimum grant requirement, councils in receipt of the minimum grant would likely receive less funding per capita if assessed on a relative need's basis.¹³⁵

Council Watch, a rate-payers advocacy group, told the Committee:

It also is not lost on us that many times very affluent inner-suburban Melbourne councils get large sums of money in grants while the regions starve. We would like to see the opposite. We would like to see the regions put first.¹³⁶

This view was echoed by several Councils who described the minimum grant requirement as 'inequitable'¹³⁷ and advocated for the requirement to be 'reconsidered'¹³⁸ to see more funding 'allocated to the cash strapped rural councils'.¹³⁹

The Grattan Institute in its 2023 report titled *Potholes and pitfalls: How to fix local roads* found that 'The minimum grant to all councils diverts too large a share of funding away from councils that are least able to raise their own revenue.'¹⁴⁰

The report referred to several past inquiries that have recommended the reduction or removal of the minimum grant.¹⁴¹ The report recommended that the minimum grant be reduced to 10 per cent of an equal-per-capita share of the Financial Assistance Grant pool, stating that 'Lowering the minimum grant wouldn't materially affect minimum-grant councils, but it would give an out-sized boost to smaller and more remote councils.'¹⁴²

¹³⁴ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 21.

¹³⁵ Victorian Local Government Grants Commission, *Annual Allocation Report 2024–25*, p. 21.

¹³⁶ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

¹³⁷ Moyne Shire Council, *Submission 39*, p. 5.

¹³⁸ Indigo Shire Council, *Submission 12*, p. 5.

¹³⁹ Indigo Shire Council, *Submission 12*, p. 5.

¹⁴⁰ The Grattan Institute, *Potholes and pitfalls: How to fix local roads*, November 2023, p. 35.

¹⁴¹ For example, see Parliament of Australia, House of Representatives Standing Committee on Economics, Finance and Public Administration *Rates and taxes: a fair share for responsible local government*. 2003, pp. 121–124.

¹⁴² The Grattan Institute, *Potholes and pitfalls: How to fix local roads*, November 2023, p. 38.

5.4.3 Timing of grant allocations

In previous years, the Financial Assistance Grants had been paid to councils before 30 June ‘as a prepayment on the next years funding’.¹⁴³ The Committee heard criticisms that the prepayment of Financial Assistance Grants ‘distorted’¹⁴⁴ the financial position of councils and made their financial positions appear ‘a bit rosier’¹⁴⁵ because ‘at 30 June there is money in the bank’.¹⁴⁶

This year, the Federal Government reverted to paying Financial Assistance Grants in July.¹⁴⁷ The Committee heard that this July is ‘the correct [financial] year’¹⁴⁸ to make the payment, as the funds are paid ‘in the [financial] year that they are to be spent’.¹⁴⁹ However, Matthew McPherson, Director Corporate from Campaspe Shire Council said during a public hearing:

The consistency and timing of payments for financial assistance grants is also a significant issue. Council received its 2023–24 financial assistance grants several days after the end of the 2023–24 financial year. Funds were paid by the federal government to the states with enough time that our neighbouring council, over the border in New South Wales, was able to receive and will report their grant funding in their 2023–24 financial report. Victorian councils, on the other hand, were made to wait to receive their allocated funds. One has to wonder why. While we have now received those funds, those few days of delay make a world of difference to our end-of-year financial result. After spending the year reporting to our community that we were working towards an improved position with respect to our deficit budget, we now find ourselves needing to report a full-year result that will be missing \$14 million of expected grant revenue. This chopping and changing in recent years about when financial assistance grants are paid leads to an erosion of trust and confidence in the administration by council and in council by our community – something that can and should be avoided.¹⁵⁰

RECOMMENDATION 23: That the Local Government Act should specify a fixed month each year for the payment of Commonwealth Financial Assistance Grants to councils, ensuring accurate management and planning of council budgets.

¹⁴³ Nathan Morsillo, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 33.

¹⁴⁴ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 38; Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 34.

¹⁴⁵ Nathan Morsillo, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 33.

¹⁴⁶ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 34.

¹⁴⁷ David Filmlater, Chief Financial Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 7.

¹⁴⁸ Nathan Morsillo, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 33.

¹⁴⁹ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 18.

¹⁵⁰ Matthew McPherson, Director Corporate, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, p. 18

5.4.4 Historical indexation freeze of grant

In 2014–15, 2015–16 and 2016–17, the Commonwealth Government did not apply the multiplication factor to the Financial Assistance Grant pool and therefore, did not index any grant payments. This is commonly referred to as the historical ‘freeze’ of Financial Assistance Grants.

FinPro told the Committee that this decision to freeze indexation has resulted in an accumulative impact of more than \$600 million of lost revenue over the three years.¹⁵¹

Small and large shire councils continue to be the most significantly impacted by the historical freeze of Financial Assistance Grants. This is because rural and regional councils typically receive higher per-capita grant allocations and have a lower capacity to replace lost grant funding via other sources.

The Victorian Local Government Association told the Committee that:

Every one of those small municipalities has got a \$1 million hold in their budget each and every year... When you think about what could be done with that \$1 million, you start to understand the impact on those communities.¹⁵²

Mildura Rural City Council estimates that the historical freeze of Financial Assistance Grants has deprived their council of \$18 million in payments over a 10-year period.¹⁵³

The Committee heard that whilst indexation has now resumed, the hole left by the historical freeze of Financial Assistance Grants continues to grow and ‘needs to be filled’¹⁵⁴. Some claimed that the decision to freeze the indexation of Federal Financial Assistance Grant payments between 2014 and 2017 continues to have a significant financial impact upon Victorian councils in terms of lost revenue, especially those regional and rural councils with high relative needs.

5.4.5 Councils want to increase the size of the ‘pie’

In 2023–24, Victorian Councils received \$747.4 million in Financial Assistance Grants.¹⁵⁵

¹⁵¹ FinPro, *Submission 11c*, p. 19.

¹⁵² Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 36.

¹⁵³ Mildura Regional City Council, *Submission 72*, p. 6.

¹⁵⁴ Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 29.

¹⁵⁵ Parliamentary Budget Office, *Submission 107*, p. 25.

Figure 5.2 Victoria's allocation of Financial Assistance Grants

\$ million	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
General purpose grants	414.0	434.2	453.4	469.6	487.7	524.9	550.2
Local roads grants	155.0	154.5	160.4	164.7	173.8	187.0	197.2
Total	569.1	588.7	613.7	634.3	661.5	711.9	747.4

Notes: 2023–24 figures are the estimated allocation. All other amounts are adjusted allocations, where the Australian Government has adjusted allocations once updated population and inflation data are taken into account.

Source: VLGGC.

Source: Parliamentary Budget Office, *Submission 107*, p. 25.

The Committee heard that Victoria's Financial Assistance Grant funding has not increased in real terms on per capita basis since 1995 – almost 30 years.¹⁵⁶

Federal Assistance Grants have historically equalled 1% of total Commonwealth taxation revenue. In 2024–25 it is estimated that Financial Assistance Grants will equal only 0.51 per cent of Commonwealth Taxation revenue.¹⁵⁷ This represents a 'significant drop'¹⁵⁸ and means that Financial Assistance Grant allocations would be nearly double had they remained at 1 per cent of Commonwealth Taxation Revenue.

The City of Greater Bendigo told the Committee that:

It is the size of the pie that means that the Federal [Government] is not picking up what is said it was going to pick up many, many decades ago.¹⁵⁹

Table 5.1 shows the percentage of Commonwealth taxation revenue that is allocated toward the Financial Assistance Grant from 2012–13 to 2021–22.

Figure 5.3 shows the percentage of Commonwealth taxation revenue allocated toward the Financial Assistance grant, alongside the total amount of Commonwealth taxation revenue between 2012–13 and 2021–22.

Table 5.1 Financial Assistance Grant percentage of total Commonwealth taxation (excl GST), 2012–13 to 2021–22

2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22
0.76%	0.77%	0.76%	0.74%	0.70%	0.65%	0.63%	0.66%	0.63%	0.57%

Source: Adapted from FinPro, *Submission 11c*, p. 22.

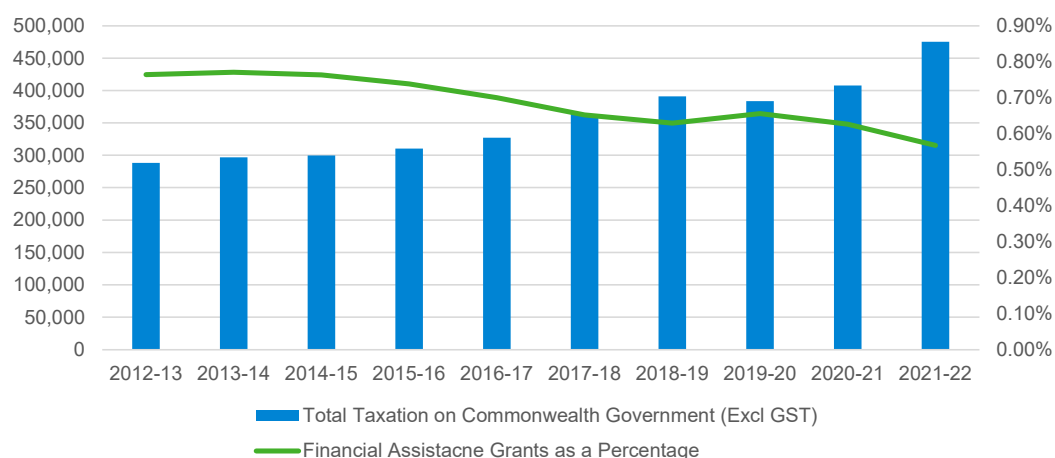
¹⁵⁶ Rural Councils Victoria, *Submission 57*, p. 12.

¹⁵⁷ Australian Local Government Association, *Fact Sheet 2 – Financial Assistance Grants*, May 2024, <https://alga.com.au/app/uploads/Fact-Sheet-2-Budget-2024-25-Local-Government-Financing_.pdf> accessed 28 October 2024.

¹⁵⁸ Nathan Morsillio, Executive Member, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 34.

¹⁵⁹ Nathan Morsillio, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 34.

Figure 5.3 Commonwealth taxation revenue (excluding GST) and Financial Assistance Grant allocations as a percentage, 2012–13 to 2021–22

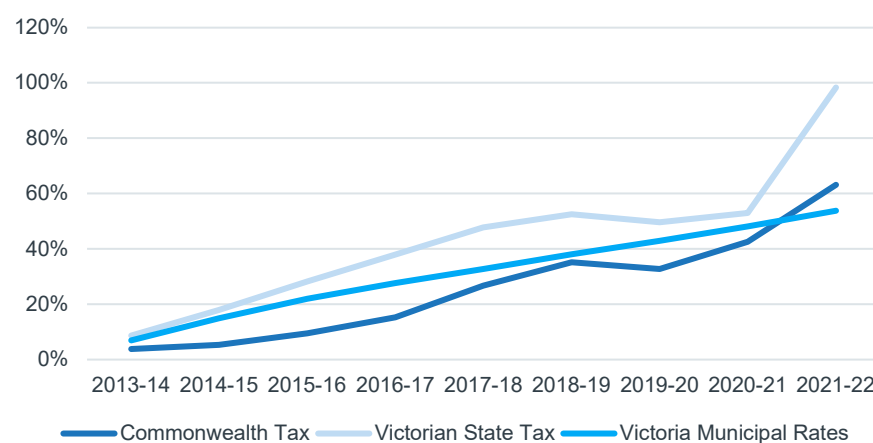


Source: Mildura Regional City Council, *Submission 72*, p. 15.

The figures show that as a percentage of total Commonwealth taxation revenue, Financial Assistance Grants have decreased significantly over time. Conversely, Commonwealth taxation revenue (excluding GST), has increased by 65% between 2011-23 and 2021/22. Victorian Government taxation revenue has also increased by 98% in the same period.

Figure 5.4 from FinPro shows that the Victorian Government has experienced similar growth in taxation in recent years, while the growth in local government rates has been steady.

Figure 5.4 Cumulative Increase in Taxation – Commonwealth, State and Local, 2013–14 to 2021–22



Source: FinPro, *Submission 11c*, p. 20.

The Committee heard that many councils believe the Commonwealth Government must 'grow the pie when it comes to financial assistance grants rather than trying

to force the sector to arm wrestle amongst itself'¹⁶⁰ for alternative allocations of the Federal Assistance Grant.¹⁶¹ Hepburn Shire Council told the Committee 'I am not convinced that we get our fair share of the total pie.'¹⁶²

The Committee heard that 'there is not enough money in the pool to offset the disadvantage faced by small rural shires and to a lesser extent large rural shires and regional centres'.¹⁶³

Mitchell Shire Council told the Committee that:

A small increase in distributions to local government through existing mechanisms will make a significant difference to the long-term financial sustainability and viability of all councils.¹⁶⁴

Mornington Peninsula Shire Council told the Committee that increased Financial Assistance Grants would enable it to:

- Enhance Service Delivery: improve and expand essential community services to better meet the needs of the growing and changing population
- Invest in Infrastructure: accelerate the renewal and development of critical infrastructure projects that have been delayed or underfunded
- Ensure Financial Stability: build a more sustainable financial model that reduces reliance on borrowing and prevents further deterioration of cash reserves; and
- Support Long-term Planning: enable long-term strategic planning and investment in projects that promote community well-being and economic growth.¹⁶⁵

Campaspe Shire Council estimates that raising the Financial Assistance Grants to 1% of Commonwealth taxation revenue would result in an additional \$15 million income and 'change council's position from one of forecast future deficits to one of sustainability'.¹⁶⁶

Bradley Thomas, President of Local Government Finance Professionals said during a public hearing:

Some interesting stats, I think, also on the revenue side: Commonwealth government taxation over the last five years has increased 31 per cent, state government taxation 34 per cent and local government rates 16 per cent. There has been a substantial decrease over the last few years, particularly when you look at a percentage of revenue

¹⁶⁰ Troy Edwards, Executive Director Corporate Services, City of Greater Geelong, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 25.

¹⁶¹ Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 25.

¹⁶² Bradley Thomas, Chief Executive Officer, Hepburn Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 64.

¹⁶³ Bass Coast Shire Council, *Submission 16*, p. 9.

¹⁶⁴ Mitchell Shire Council, *Submission 81*, p. 12.

¹⁶⁵ Mornington Peninsula Shire Council, *Submission 82*, p. 7.

¹⁶⁶ Campaspe Shire Council, *Submission 74*, p. 3.

in the financial assistance grants, and we particularly call for an increase to the total pool – not just a redistribution or reconsideration between the cohorts but an increase to the pool.¹⁶⁷

Mildura Rural City Council stated in its submission:

That the Committee notes that as a percentage of total Commonwealth Government taxation revenue (excluding GST), the amount of Financial Assistance Grants made available to local government decreased from 0.76% to 0.57% from 2011/12 to 2021/22.¹⁶⁸

Latrobe City Council's submission also called for the Federal Government to return the Financial Assistance Grants Program to the 1% benchmark.¹⁶⁹

The Committee received evidence from many stakeholders who recommended that Financial Assistance Grants be increased to a minimum of 1 per cent Commonwealth Taxation Revenue. For some, this was communicated as their 'number one priority'.¹⁷⁰

The Committee also heard that the Commonwealth Government 'made an election commitment to provide fair increases to Financial Assistance Grants'¹⁷¹ which to date has not been delivered.¹⁷²

RECOMMENDATION 24: That the Victorian Government advocate to the Commonwealth Government that Financial Assistance Grants be raised to 1 per cent of Commonwealth taxation revenue.

5.5 Disaster Recovery Funding Arrangements

The Disaster Recovery Funding Arrangements (DRFA) is 'a cost sharing arrangement between the Commonwealth and State governments to support certain relief and recovery activities following an eligible disaster'.¹⁷³

¹⁶⁷ Bradley Thomas, President Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 39.

¹⁶⁸ Mildura Rural City Council, *Submission 7*, p. 4.

¹⁶⁹ Latrobe City Council, *Submission 59*, p. 2.

¹⁷⁰ Troy Edwards, *Transcript of evidence*, 7 August 2024, p. 31.

¹⁷¹ Mornington Peninsula Shire Council, *Submission 82*, p. 5.

¹⁷² Mornington Peninsula Shire Council, *Submission 82*, p. 5.

¹⁷³ Victorian Government, *Disaster Recovery Funding Arrangements*, <<https://www.vic.gov.au/disaster-recovery-funding-arrangements>> accessed 29 October 2024.

The DRFA 'is not intended to replace other actions or measures that should be taken to protect assets or prevent disasters',¹⁷⁴ nor is it intended to 'cover all costs that may be incurred from an eligible disaster'.¹⁷⁵

The DRFA claims process is described as 'akin to an insurance claim'.¹⁷⁶ Claims are independently assessed by the Department of Transport and Planning, who receive technical support from Emergency Recovery Victoria.¹⁷⁷ DRFA claims can be made in four categories, including:

- Category A: Assistance to individuals
- Category B: Essential public assets
- Category C: Community recovery; and
- Category D: Exceptional circumstances.¹⁷⁸

The DRFA 'acquittal process can take 1–2 years to be finalised after the relevant financial year'.¹⁷⁹

Brimbank City Council said the DRFA program is a significant source of funding for councils, as they:

are on the frontline preparing for, mitigating, adapting and responding to the risks and impacts of climate change as communities across Victoria experience the compounding effects of successive flood, storm, fire and heatwave events.¹⁸⁰

Indigo Shire Council told the Committee that:

It is not uncommon to have multiple natural disaster remediation projects that collectively exceed 50 per cent of the council's annual capital works contribution, significantly impacting financial stability and ability to maintain service delivery.¹⁸¹

DRFA funding is likely to become increasingly significant to councils' budgets as natural disasters and weather events become more severe and more frequent. Brimbank City Council highlighted that:

A recent economic analysis of the direct risks to council-owned community assets from climate hazards in greater Melbourne assessed average annual damages as currently \$90–120 million. This is expected to increase to around \$210–300 million by 2050 (a

¹⁷⁴ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024* <<https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.vic.gov.au%2Fsites%2Fdefault%2Ffiles%2F2024-08%2FDRFA-overview-February-2024.pptx&wdOrigin>> accessed 30 October 2024.

¹⁷⁵ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024*.

¹⁷⁶ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024*.

¹⁷⁷ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024*.

¹⁷⁸ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024*.

¹⁷⁹ Victorian Government, *Disaster Recovery Funding Arrangements (DRFA) overview – February 2024*.

¹⁸⁰ Brimbank City Council, *Submission 48*, p. 3.

¹⁸¹ Indigo Shire Council, *Submission 12*, p. 5.

150% increase) and \$400–540 million by 2100 (a 300% increase) under business as usual ...¹⁸²

The Committee heard from several councils who criticised the DRFA program.

5.5.1 Grant requirements and claim processing is onerous

The requirements of the DRFA program, as well as the claim processing experience, was criticised by several councils.¹⁸³ The Committee heard that the DRFA program is cumbersome, needlessly complex, and laborious.

Hepburn Shire Council stated, ‘The current Disaster Recovery Funding Arrangements are cumbersome, and do not treat Local Government as a partner.’¹⁸⁴

Campaspe Shire Council stated:

The system has been needlessly complex and requires a significant volume of evidence being provided before a claim is raised, often requiring evidence to be gathered while responding to a devastating natural disaster.¹⁸⁵

There is too much red tape and lack of clarity – where is the trust in Local Government?¹⁸⁶

South Gippsland Shire Council stated:

The process and requirements are so laborious that it is almost out of our reach ... It is really complicated and stressful.¹⁸⁷

Warrnambool Shire Council stated:

The evidential requirements are pretty extreme.¹⁸⁸

Peri Urban Councils Victoria stated:

The process and the red tape required to get the support that we need is just overly cumbersome.¹⁸⁹

¹⁸² Brimbank City Council, *Submission 48*, p. 3.

¹⁸³ For example, see Hepburn Shire Council, *Submission 65*, p. 7; Campaspe Shire Council, *Submission 74*, p. 4.

¹⁸⁴ Hepburn Shire Council, *Submission 65*, p. 7.

¹⁸⁵ Campaspe Shire Council, *Submission 74*, p. 4.

¹⁸⁶ Campaspe Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 26 September 2024, p. 4.

¹⁸⁷ Taryn Abrahamsson, Manager Financial Strategy, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 19.

¹⁸⁸ John Brockway, Manager Finance, Warrnambool City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 56.

¹⁸⁹ Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 30.

The Committee heard that many councils have employed additional staff ‘just to administer natural disaster funding claims’.¹⁹⁰

The Committee also heard that onerous DRFA requirements ‘can be cost prohibitive’¹⁹¹ to smaller councils with more limited resources, especially those in rural and regional areas. Such councils ‘do not possess the capability or capacity to be able to meet these restrictive and cumbersome guidelines’¹⁹² and therefore, may not be able to access important funding. This is of particular concern as rural and regional areas are disproportionately impacted by natural disasters and severe weather events.

A common criticism of the DRFA program was the requirement to submit ‘before’ and ‘after’ photos as part of a claim. The Committee heard that councils are subject to:

Very strict requirements to have ‘before’ and ‘after’ photos of assets affected by events, taken from the exact same position (not acceptable to have a video from a moving vehicle). Effectively this may mean council officers have to stop and take a picture from several angles of anywhere where a landslip might occur so that we have the accurate before photo in case something occurs on a road network of thousands of kilometres.¹⁹³

Councils stated that they often struggle ‘to provide pre and post condition reports to a level that meets evidentiary requirements’.¹⁹⁴ Warrnambool City Council noted that claims may be rejected because photos taken were not from a wide enough angle, or for example, because ‘you do not see the tree across the whole road’.¹⁹⁵ Councils are particularly critical of such onerous requirements in the context of needing to promptly respond to natural disasters or extreme weather events to ensure the safety of their communities. Peri Urban Councils Victoria noted that in the ‘middle of the night, you need to be fixing the road, not necessarily standing out there taking pictures’.¹⁹⁶

The Committee heard that claims can be denied ‘because council is unable to meet the evidentiary requirements’.¹⁹⁷ Campaspe Shire Council stated that up to 20% of their claims are denied for this reason, noting that the ‘anxiety about what will and wont be funded, especially with an event of the size of the 2022 floods in the Campaspe region, will significantly impact council’s budget if 20% of the damage is not funded’.¹⁹⁸ Macedon Ranges Shire Council noted that it has incurred ‘significant costs in excess of \$5.6 million’¹⁹⁹ which are not able to be claimed.

¹⁹⁰ Taryn Abrahamsson, Manager Financial Strategy, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 19.

¹⁹¹ Mansfield Shire Council, *Submission 97*, p. 1.

¹⁹² Campaspe Shire Council, *Submission 74*, p. 5.

¹⁹³ South Gippsland Shire Council, *Submission 33*, p. 6.

¹⁹⁴ Campaspe Shire Council, *Submission 74*, p. 5.

¹⁹⁵ John Brockway, Manager Finance, Warrnambool City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 56.

¹⁹⁶ Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 30.

¹⁹⁷ Campaspe Shire Council, *Submission 74*, p. 5.

¹⁹⁸ Campaspe Shire Council, *Submission 74*, p. 5.

¹⁹⁹ Macedon Ranges Council, *Submission 61*, p. 14.

FINDING 34: Many councils experience the Disaster Recovery Funding Arrangements claims process as cumbersome, needlessly complex, and laborious. This is particularly true for smaller, rural and regional councils.

FINDING 35: Many councils struggle to balance the high evidentiary requirements of the Disaster Recovery Funding Arrangements claims process with the need to promptly respond to safety concerns after natural disasters and extreme weather events.

RECOMMENDATION 25: That the Victorian Government streamline as far as practicable the evidentiary requirements of the Disaster Recovery Funding Arrangements claim process to make it more accessible to smaller, rural and regional councils.

5.5.2 Slow acquittal of funds is a financial risk for councils

The Committee heard that the DRFA process is too slow in responding to council's urgent needs following natural disasters and severe weather events.

Campaspe Shire Council told the Committee that:

Councils start spending money immediately, particularly performing emergency works, with no understanding as to whether the works will be claimable, or if Category A or B funds will be released. This often leads to less evidence being gathered, given the nature of the works and when they occur in the timeline of the event, making earlier actions harder to claim.²⁰⁰

The City of Greater Bendigo emphasised that there is a significant lag between when council spends funds immediately after a natural disaster or severe weather event and when council finds out whether DRFA claims are successful.²⁰¹ This represents a significant financial risk to smaller, regional and rural councils. It noted it has 'A community that needs to drive down a road, we have got to make it safe. We do that, and we take a punt that we are going to get that federal money back for a disaster.'²⁰²

In circumstances where councils are unable or unwilling to front up funding to fix damaged infrastructure, communities depend upon lengthy DRFA claims processes and are subject to 'constant reminders of'²⁰³ traumatic weather events. Indigo Shire Council told the Committee it is only just getting approval now 'to fix works that were

²⁰⁰ Campaspe Shire Council, *Submission 74*, p. 5.

²⁰¹ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, pp. 36–37.

²⁰² Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 37.

²⁰³ Campaspe Shire Council, Inquiry into Local Government funding and services hearings, response to questions on notice received 26 September 2024, p. 4.

damaged a year and two years ago'.²⁰⁴ Indigo Shire Council noted that its community 'have been very frustrated with how long it takes to work through the process of disaster recovery funding'.²⁰⁵

The Committee heard that several councils have waited up to three years for DRFA claims to be processed.²⁰⁶

Macedon Ranges Shire Council told the Committee that the June 2021 storm cost council approximately \$21 million, representing a fifth of its budget.²⁰⁷ It took three years to work through the DRFA claims process.²⁰⁸

South Gippsland Shire Council told the Committee that is currently has '\$10 million in natural disaster funding awaiting assessment'²⁰⁹ which it is unable to spend on its community.

FINDING 36: Lengthy Disaster Recovery Funding Arrangements claim processing times of up to three years delays critical repair works following natural disasters or severe weather events. Alternatively, it imposes significant financial risk upon councils who undertake repair works before Disaster Recovery Funding Arrangements claims are processed.

RECOMMENDATION 26: That the Victorian Government ensure rapid mobilisation of funding from the Disaster Recovery Funding Arrangements, with the Victorian government aiming to process claims within three months.

5.5.3 Councils seek betterment funding

The Committee heard that currently, DRFA largely only 'supports the reinstatement of infrastructure to pre-existing standards'.²¹⁰ In other words, it supports councils 'to put back what was there'.²¹¹

²⁰⁴ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 58.

²⁰⁵ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 58.

²⁰⁶ For example, see: Bernie O'Sullivan, Chief Executive Officer, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 56.

²⁰⁷ Bernie O'Sullivan, Chief Executive Officer, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 56.

²⁰⁸ Bernie O'Sullivan, Chief Executive Officer, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 56.

²⁰⁹ Taryn Abrahamsson, Manager Financial Strategy, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 19.

²¹⁰ Macedon Ranges Shire Council, *Submission 61*, p. 14.

²¹¹ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 23.

Should council wish to ‘upgrade the infrastructure to a more robust standard’²¹² it would need to cover the funding gap itself or seek DRFA support under Category D: exceptional circumstances.²¹³ This practice is commonly understood as ‘infrastructure betterment’.

Regional Cities Victoria told the Committee that:

‘Infrastructure betterment’ is the restoration or replacement of damaged assets (at a higher cost) to a more disaster resilient standard than its pre-disaster standard. It is a cost-effective opportunity to reduce the risk posed by future disasters and help reduce recovery costs on governments longer-term. Infrastructure betterment can also bring additional social, economic, and environmental benefits for local communities.²¹⁴

The Committee heard from several stakeholders who believe the emphasis of disaster recovery ‘should be on enhancement of infrastructure so that it can cope better with future events’.²¹⁵

Murrumbidgee Shire Council noted that the DRFA process does not allow it to:

Upgrade the asset, even if we know that its not durable and it is not going to withstand the next flood event. Apart from all of the administrative burden and cost, we feel that it is not a good use of taxpayers money unless we build back better.²¹⁶

The Committee heard of several examples where DRFA enabled councils to replace an asset only to have it fail following the next natural disaster or severe weather event.

Campaspe Shire Council told the Committee:

After the 2012 floods Council conducted a like for like replacement or repair of its assets. Many of those same assets have been damaged in the 2022 floods and Council will be forced to do the same this time as well.²¹⁷

East Gippsland Shire Council said:

We actually had to rebuild a culvert not once, not twice, but three times because we only got funding to build it back to the same rather than actually investing in that betterment part.²¹⁸

²¹² Macedon Ranges Shire Council, *Submission 61*, p. 14.

²¹³ Regional Cities Victoria, *Submission 68*, p. 4.

²¹⁴ Regional Cities Victoria, *Submission 68*, p. 4.

²¹⁵ Cr Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 2.

²¹⁶ Livia Bonazzi, Chief Executive Office, Murrumbidgee Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 23.

²¹⁷ Campaspe Shire Council, *Submission 74*, p. 5.

²¹⁸ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 16.

The Committee heard that ‘there is no point building like for like’²¹⁹ as ‘we have to future proof’²²⁰ in anticipation of ‘further climate volatility’.²²¹ Councils emphasised that building back like for like is a more ineffective and costly way to deal with asset damage following natural disasters and severe weather events.²²²

Councils advocated for ‘infrastructure betterment’ programs more akin to those in other Australian states.²²³ The Committee heard that Victoria ‘contrasts with other states where betterment programs are established, thereby meaning that infrastructure better withstands the next emergency and reduces the cost to all levers of government in the longer term’.²²⁴ Rural Councils Victoria particularly mentioned betterment funding programs in Queensland, noting that whilst Victoria has allocated some money to infrastructure betterment ‘it is nowhere near as much as is needed’.²²⁵

FINDING 37: By facilitating the repair of damaged assets on a like for like basis the Disaster Recovery Funding Arrangement program is increasing costs to government in the long term. This is because damaged assets are not built back better to withstand future natural disasters and severe weather events and are requiring replacement more frequently.

RECOMMENDATION 27: That the Victorian State Government update Commonwealth Government Disaster Recovery Funding Arrangements to allow betterment to build the resilience of local council infrastructure.

5.6 Road grants

Commonwealth Financial Assistance Grants include an identified local roads component. The Victorian Local Government Grants Commission recommends the allocation of local roads component based on the relative needs in maintaining local roads, considering road length, traffic volumes, climate, freight and sub-grades.²²⁶

In addition to Financial Assistance Grants, Commonwealth and State governments also provide financial assistance to councils through other grant programs, such as the

²¹⁹ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 20.

²²⁰ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 20.

²²¹ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 20.

²²² For example, see Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 23.

²²³ For example, see: Macedon Ranges Shire Council, *Submission 61*, p. 14.

²²⁴ Macedon Ranges Shire Council, *Submission 61*, p. 14.

²²⁵ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 52.

²²⁶ FinPro, *Submission 11c*, p. 30.

Roads to Recovery, Local Roads and Community Infrastructure, and Country Roads and Bridges Programs. These programs are discussed further below.

The Committee heard that ‘existing renewal-focused funding falls short of meeting the communities’ long-term requirements’. Road renewal is discussed further in Chapter 3.

5.6.1 Roads to Recovery

The Roads to Recovery Program is an ongoing Federal Government grants program that provides a ‘stable and predictable source of funding’²²⁷ to support the ‘construction and maintenance of the nation’s local road and infrastructure assets’.²²⁸

\$4.4 billion will be available over the five years from 2024–25 to 2028–29 under the Roads to Recovery Program.²²⁹ Nominal annual funding allocations have been published.²³⁰ Wellington Shire Council has been allocated the highest notional amount in Victoria totalling \$27,777,965 over the five-year period whilst the Borough of Queenscliffe Council has been allocated the lowest notional amount in Victoria totalling \$335,995 over the five-year period.²³¹

The Committee heard from several councils who praised the Roads to Recovery program, which was described as flexible and straightforward.

Macedon Ranges Shire Council described the Roads to Recovery program as a:

Positive example of a stable, flexible and relatively predictable source of revenue that appropriately recognises the priorities of the local community and the costs of delivering these essential services to the community.²³²

Pyrenees Shire Council welcomed the Roads to Recovery program stating that it enabled:

Asset renewal and other critical infrastructure works to be undertaken. Importantly the straightforward reporting and administration associated with these funds are also critical elements to ensure the task of administration is minimised but sufficient to ensure an appropriate level of accountability.²³³

²²⁷ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Roads to Recovery Program*, <<https://investment.infrastructure.gov.au/about/local-initiatives/roads-recovery-program>> accessed 30 October 2024.

²²⁸ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Roads to Recovery Program*.

²²⁹ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Roads to Recovery Program*.

²³⁰ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Roads to Recovery (RTR) Program Nominal Funding Allocations*, <<https://investment.infrastructure.gov.au/sites/default/files/documents/rtr-nominal-funding-allocations-2024-29.pdf>> accessed 30 October 2024.

²³¹ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Roads to Recovery (RTR) Program Nominal Funding Allocations*.

²³² Macedon Ranges Shire Council, *Submission 61*, p. 5.

²³³ Pyrenees Shire Council, *Submission 96*, pp. 2–3.

Campaspe Shire Council stated that it greatly appreciated the recent increases to the Roads to Recovery program, noting that it is:

An excellent program, particularly as funding is provided directly to Council, and we are trusted to administer and allocate it where it can be of greatest benefit. The acquittal process is not onerous and without this program our road networks would fall apart.²³⁴

Mornington Peninsula Shire Council considered that councils need 'higher levels of funding'²³⁵ from programs such as Roads to Recovery, which it states, 'have not kept pace with inflation and the level of aging infrastructure across Australia'.²³⁶

5.6.2 The Local Roads and Community Infrastructure program

The Local Roads and Community Infrastructure program was a four-phase Federal Government grant program that provided 3.25 billion to councils to support the delivery of priority local road and community infrastructure projects.²³⁷

The Local Roads and Community Infrastructure program was described as a great program that could be 'customised for local needs'.²³⁸

Mansfield Shire Council noted that the Local Roads and Community Infrastructure program:

Provided flexible funding opportunities for our Council to apply for and allowed Council to address a backlog of asset renewal required in road infrastructure in particular.²³⁹

The City of Greater Bendigo described the Local Roads and Community Infrastructure program as:

A really useful fund because we had a bit more flexibility on how we could spend it as long as it was spent within the broad principles of that fund, which we were able to do; we had plenty of community infrastructure and local roads that needed work. We have lost that money, and so that money to do that work has to come from our own sources.²⁴⁰

It was also one of the few grants that allowed spending on renewing assets rather than the shiny new thing that needed to be for the next thing, so it was a really flexible way of looking at maintaining and keeping things well.²⁴¹

²³⁴ Matthew McPherson, Director Corporate, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 18.

²³⁵ Mornington Peninsula Shire Council, *Submission 82*, p. 13.

²³⁶ Mornington Peninsula Shire Council, *Submission 82*, p. 13.

²³⁷ Commonwealth Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Local Roads and Community Infrastructure Program* <<https://investment.infrastructure.gov.au/about/local-initiatives/local-roads-and-community-infrastructure-program>> accessed 30 October 2024.

²³⁸ Corangamite Shire Council, *Submission 102*, p. 6.

²³⁹ Mansfield Shire Council, *Submission 97*, p. 7.

²⁴⁰ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 25.

²⁴¹ Nathan Morsillo, Manager Financial Strategy, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 35.

Mitchell Shire Council considered that the Local Roads and Community Infrastructure program allowed for some longer-term planning in partnership with their community.²⁴² Gannawarra Shire Council echoed this view, stating:

The absolute gem was that there was a guarantee. It was not a competitive process. You did not waste all this time coming up with business cases and proposals and then having to find the matching funding. You actually knew it was coming, which meant that you could actually schedule and program in the most appropriate project for your community.²⁴³

Several councils praised the Local Roads and Community Infrastructure Program, noting that its flexibility allowed councils to undertake asset renewal in line with community need.

5.6.3 The Country Roads and Bridges Grant Program

The Country Roads and Bridges Grant Program was a Victorian State Government program that distributed annual \$1 million uncommitted grants to 40 eligible regional councils. The program ran between 2011–12 and 2014–15 and was managed by the Victorian State Department of Transport, Planning and Local Infrastructure.

The Committee heard that the Country Roads and Bridges Program was highly regarded by previous recipients. Hindmarsh Shire Council told the Committee that it was:

A fantastic program. The million dollars a year made a significant difference to our ability to maintain our roads and to maintain our bridges.²⁴⁴

Strathbogie Shire Council told the Committee that the Country Roads and Bridges Grant Program was:

Something that we planned around, and we actually did see an enhancement in our road network while that program was available. It was a very welcome thing for the council at the time.²⁴⁵

Murrindindi Shire Council told the Committee that the Country Roads and Bridges Program gave them consistency and predictability so the council could plan ahead.²⁴⁶ It noted doubt that \$1 million ‘would be enough for a council like Murrindindi’.²⁴⁷

²⁴² Brett Luxford, Chief Executive Officer, Mitchell Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 46.

²⁴³ Geoff Rollinson, Chief Executive Officer, Gannawarra Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 46.

²⁴⁴ Monica Revell, Chief Executive Officer, Hindmarsh Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 42.

²⁴⁵ Tim Tamlin, Interim Chief Executive Officer, Strathbogie Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 45.

²⁴⁶ Livia Bonazzi, Chief Executive Officer, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 16.

²⁴⁷ Livia Bonazzi, Chief Executive Officer, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 16.

During a public hearing, Livia Bonazzi, CEO of Murrindindi Shire Council, when asked about the Country Roads and Bridges Program, stated its benefits:

Yes, that is a very helpful program. It gives consistency, predictability, so we can plan ahead. I would argue that perhaps \$1 million is not enough for a council like Murrindindi – ... We have 1250 kilometres of road.²⁴⁸

Ms Bonazzi further stated:

We have suffered from isolation, with poor or non-existent public transport, and digital connectivity just worsens our access. We have very high costs to serve. We only have 12 residents per kilometre of local roads, compared to 287 residents in metropolitan areas. Our costs are increasing as well. Materials, contractors and insurance have gone up 30 to 40 per cent in the last two years, and also in cost shift we have experienced increases. The landfill cost has doubled in the last four years, and our out-of-pocket expenses for four of our services have doubled due to cost shifting in the last four years.²⁴⁹

Councils who received Country Roads and Bridges Program funding highly regarded the program and its predictability.

RECOMMENDATION 28: That the Victorian Government should reinstate a program similar to the Country Roads and Bridges Program that existed between 2011–12 and 2014–15 that is untied funding to Local Government.

5.7 The Growing Suburbs Fund

The Growing Suburbs Fund is a Victorian Government grant program that supports ‘critical local community infrastructure needs’²⁵⁰ in ‘fast-growing outer suburbs within the 10 interface councils’.²⁵¹ The Growing Suburbs Fund has provided \$440 million over 10 years between 2015–16 and 2024–25.²⁵²

Wyndham City Council told the Committee that ‘one of the major successes of the interface group of councils, now the Outer Melbourne Council’s group, was the Growing Suburbs Fund’.²⁵³ It stated:

It was a big advocacy pitch where government acknowledged that there was a different cost pressure on growth councils and so this funding stream was developed: \$50 million

²⁴⁸ Livia Bonazzi, Chief Executive Officer, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 16.

²⁴⁹ Livia Bonazzi, Chief Executive Officer, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, pp. 13–14.

²⁵⁰ Victorian State Government, Department of Transport and Planning, *Growing Suburbs Fund*, <<https://www.suburbandevelopment.vic.gov.au/grants/growing-suburbs-fund>> accessed 30 October 2024.

²⁵¹ Victorian State Government, Department of Transport and Planning, *Growing Suburbs Fund*.

²⁵² Local Government Victoria, *Growing Suburbs Fund*, <<https://www.localgovernment.vic.gov.au/grants/growing-suburbs-fund>> accessed 30 October 2024.

²⁵³ Stephen Wall, Chief Executive Officer, Wyndham City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 6.

that was shared amongst 10 councils. We all rejoiced. It was great. \$5 million is not an insignificant amount of money per council, and over the number of years in the order of \$440 million of additional funding went into growth councils.²⁵⁴

The May 2024 budget allocated \$5 million to the Growing Suburbs Fund.²⁵⁵ This is significantly less than the \$50 million allocated in previous years and represents ‘a 90 per cent reduction in two years’.²⁵⁶ The Committee heard the reduction in the Growing Suburbs Fund makes it ‘hardly worth applying for’.²⁵⁷

Peri Urban Councils Victoria highlighted that ‘the interface councils have gathered \$1.2 billion through the Growing Suburbs Fund’.²⁵⁸ By contrast, the Peri-urban councils will have to manage growth without equivalent financial support.

The Commonwealth Government runs grant programs that aim to support to delivery of infrastructure across Australia’s rural and regional areas. For example, the Growing Regions Program has committed \$600 million over for years commencing in 2023–24. It is a competitive grant with funding awarded on a merit basis.

Councils, particularly those in growth and peri-urban areas, are required to manage fast population growth and therefore require additional financial support.

FINDING 38: Some councils, particularly those in peri-urban areas, are required to manage fast growth without the levels of financial support previously provided to interface councils by the Victorian Government under the Growing Suburbs Fund.

RECOMMENDATION 29: That the Victorian Government consider creating growth funds to support infrastructure delivery for different groups of councils experiencing rapid growth, including interface, peri-urban, and regional councils and consider greater use of works in kind agreements and deliver infrastructure in a timely manner.

²⁵⁴ Stephen Wall, Chief Executive Officer, Wyndham City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 6.

²⁵⁵ Local Government Victoria, Growing Suburbs Fund, <<https://www.localgovernment.vic.gov.au/grants/growing-suburbs-fund>> accessed 30 October 2024.

²⁵⁶ Wyndham City Council, *Submission 49*, p. 6.

²⁵⁷ Stephen Wall, Chief Executive Officer, Wyndham City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 6.

²⁵⁸ Derek Madden, Chief Executive Officer, Moorabool Shire Council, Peri-Urban Councils Victoria, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 23.

Chapter 6

Cost shifting

6.1 Overview

Cost shifting, where the Victorian Government adds responsibilities or changes financial conditions for Victorian councils, was cited as an ongoing drag on council financial sustainability. The Committee was provided with a number of examples where the proportion of government funding for valued services, such as libraries or maternal and child health, has declined. Other examples were given of extra fees or new responsibilities imposed on councils without consultation. Cost shifting exacerbates financial sustainability concerns caused by constrained revenue.

The Committee believes there is significant scope for the Victorian Government to improve its consultation and engagement in these areas through a revival of the Victorian State-Local Government Agreement.

6.2 What is cost shifting?

Broadly, the Committee head that cost shifting is the practice whereby the Victorian Government delegates responsibilities, adds regulations, sets fees, or reduces financial support for Victorian councils.¹ The result of which causes financial burdens for Victorian councils.

FinPro gave a definition used by a House of Representatives Committee report from 2003. This definition is in line with what stakeholders reported to the Committee:

- The withdrawal or reduction of financial support once a program is established, therefore leaving local government with the choice of continuing a program or suffering the political odium of cancelling the service
- The transfer of assets without appropriate funding support
- The requirement to provide concessions and rebates without compensation payments
- Increased regulatory and compliance requirements; and
- Failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation.²

To illustrate the extent of cost shifting, the submission from the MAV provided examples where it believes cost shifting applies (Figure 6.1).

¹ FinPro, *Submission 11.c*, p. 39.

² FinPro, *Submission 11.c*, p. 39.

Figure 6.1 Examples of cost shifting

Legislative or regulatory change impacting councils	
Change	Example
Introducing or altering council's responsibility as a regulator	Changes to the Building Act and Building Regulations to introduce a swimming pool safety barrier inspection regime, with councils having oversight within their municipality and being required to take action where proof of compliance is not lodged by a property owner.
Introducing or altering requirements for councils to provide a service to the community	Changes to the Circular Economy Act and Regulations requiring councils to provide a four-stream waste and recycling service to households within their municipality
Prescribing levels for fees or fines which council can charge	Changes to the Domestic Animals Act and Regulations regarding the fees councils may charge for the registration of domestic animals
Introducing or altering specific requirements on councils	Changes to the Local Government Act on what activities can be funded through the setting of a service rate or charge
Changes to non-regulation subordinate instruments	Changes to planning schemes to move types of applications into the VicSmart streamlined assessment pathway which reduces decision timeframes and may attract different application fees.
Changes to requirements on public sector organisations	Changes to the requirements for processing applications under the Freedom of Information Act
Introducing or altering requirements on councils as an organisation	Changes to the Environment Protection Act and Regulations to introduce a General Environmental Duty requiring persons and organisations to proactively minimise risks of harm via pollution
Costs directly imposed on councils	Raising the rate per tonne charged through the waste levy significantly above indexation

Source: Municipal Association of Victoria, *Submission 105*, p. 57.

Cost shifting has been identified to be a significant issue in New South Wales (NSW), with a recent report highlighting the cost to annual councils was \$1.36 billion in 2021–22.³ The financial impact of cost shifting is discussed in Section 6.5.

For the purposes of this report, the Committee has chosen to consider cost shifting in two broad categories, according to the evidence it received from stakeholders about this issue. They are

- Financial cost shifting, which in this report covers:
 - the erosion of the proportion of Victorian Government funding for certain services
 - the levying of new charges on local councils; and
 - issuing new guidelines on council service charges.
- Legislative cost shifting, which in this report covers:
 - regulatory compliance
 - statutory fees; and
 - changes to taxation.

6.3 Financial cost shifting

6.3.1 Libraries

The diminishing proportion of State Government funding for public libraries was the most often cited example of cost shifting. The Committee heard that funding for

³ Local Government NSW, *LGNSW Cost Shifting Report – How State Costs Eat Council Rates*, 2023, p. 1.

libraries had once been shared equally between the State Government and councils, with each providing 50%. However, over the years, councils have taken on more of this burden and now councils provided on average 80% of funding for libraries.⁴

The Victorian Government provides the following two key funding streams for libraries:

- The Public Libraries Funding Program – which provides annual recurrent funding to councils the purchase of collection items, computers, library and outreach programs, and other services provided by Victorian public libraries. In 2023–24 \$48.2 million was allocated to the program.⁵
- The Living Libraries Infrastructure Program – which assists councils to deliver new or renewed library infrastructure for their communities, which in 2023–24 provided for grants of up to \$200,000. The program has invested \$47 million over the last eight years.⁶

Colin Morrison, Executive Officer of the Victorian Local Government Grants Commission, gave an overview of the Public Libraries funding program. He explained that councils did not need to apply for the funding, and that it is essentially untied, allowing councils to choose how to deploy the funding for their library services:

That funding is essentially untied except that it needs to be applied to, obviously, the provision of public library services. But we do not make a call as to whether it can be used for staffing or for buying materials or for utility bills. It is essentially untied funding for use within the public library service ...

... It is not funding that councils need to apply for. It is formula based, and that formula skews the funding towards smaller rural councils.⁷

The Municipal Association of Victoria (MAV) gave an explanation of library funding over time in response to a Question on Notice. They said that in the 1970's the Victorian Government and local government contributed evenly to the funding of libraries. This '50–50' split in library funding was also mentioned by a number of other councils.⁸

However, Mike Gooley, CEO of Local Government Victoria (LGV) said the 50–50 split was short lived and libraries have evolved since that time, with councils providing additional funding to meet the changing needs of communities:

The 50–50 split between state government and local government, with regard to libraries, is an interesting artefact, because it was for about 10 minutes in 1975, I think, when that actually occurred. Obviously, in almost 50 years, the nature and the expectations of community around libraries have changed ...

4 Municipal Association Victoria, *Submission 105*, p. 76.

5 Local Government Victoria, *Public Library Programs*, <<https://www.localgovernment.vic.gov.au/funding-programs/public-library-funding>> accessed 23 October 2024.

6 Local Government Victoria, *Living Libraries Infrastructure Program 2023–24 Grant Guidelines*, 2024, p. 3.

7 Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 10.

8 See for example, Rural City of Wangaratta, *Submission 46*, p. 5; Hobsons Bay City Council, *Submission 32*, p. 5; Damian Hogan, Chief Financial Officer, Mooney Valley City Council, public hearing, Broadmeadows, 19 September 2004, *Transcript of evidence*, p. 30.

... it is important to recognise that community expectations have continued to shift, and local governments have done a great job of understanding what those broader requirements are, and therefore the sorts of services that are being provided continue to change. The ability then for state government and local government to work together to make sense of what the split of costs is is an ongoing part of the negotiation that goes on between the sectors.⁹

The MAV said that today the split in funding split is 80:20, with local government providing on average 80% of funding and the State Government providing 20%. The MAV estimate that the gap between what is provided by the different levels of government to be \$83 million annually and growing.¹⁰ As a result of this, local councils find it challenging to keep up with library funding in a way that ensures a consistent level of service. They noted:

- Since 2014–15 expenditure on libraries has increased 7.1%
- A growing proportion of branch opening hours are unstaffed.
- The number of branches per capita has decreased by 28%.¹¹

Councils reported the drop in State Government funding for libraries had significant financial impacts.

Hobsons Bay City Council noted that the State Government proportion of funding for its libraries has dropped from 50% to 17%. They described the financial cost to the council as a result of the government's lower funding ratio:

If state funding were still at the 50% level, the investment in libraries would have been roughly \$8 million for the 2023/24 fiscal year. However, the actual state funding provided was only \$1.34 million, leading to a decrease in funding of approximately \$5.66 million. This substantial reduction has placed additional financial pressure on Council, requiring it to allocate more of its own funds to maintain library services.¹²

Jemma Wightman Chief Financial Officer at the City of Merri-bek, said it provided \$1.7 more in funding each year now than it would have, if the 50–50 funding agreement were still in place:

In 1975 public libraries were funded 50–50 by state government and local government. In 2022–23 state government funded 20 per cent of the operating costs of our five public libraries, with council contributing the remaining 80 per cent of the costs, approximately \$4.8 million per annum or \$1.7 million more than if the original funding split had remained consistent.¹³

⁹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 4.

¹⁰ Municipal Association Victoria, *Submission 105*, p. 76.

¹¹ Municipal Association Victoria, Inquiry into Local Government funding and services hearings, response to questions on notice received 16 July 2024, p. 5.

¹² Hobsons Bay City Council, *Submission 32*, p. 5.

¹³ Jemma Wightman, Chief Financial Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 62.

A number of councils reported similar funding splits, including:

- The Rural City of Wangaratta, who fund 83% of their libraries.¹⁴
- Mooney Valley, who funded 87% of their libraries.¹⁵
- The city of Knox, who fund 80% of their libraries.¹⁶

Mitchell Shire Council stated in their submission:

In 1975 library services were equally funded by State and local government, in 2023/24 the contribution by the State government represents approximately 20% of the operational cost of delivery which does not account for infrastructure related costs.¹⁷

FINDING 39: The Victorian Government has failed to maintain a 50/50 shared funding agreement for public libraries, placing a significant financial burden on local councils.

RECOMMENDATION 30: The Victorian Government should restore a shared funding agreement of 50/50 with local councils for the operation of public libraries.

6

6.3.2 School crossing supervisors

School crossing supervisors are a highly valued community service that has ensured the safety of generations of children. However, like libraries, many councils reported that the proportion of State Government funding for this important service has declined.

The Rural City of Wangaratta informed the Committee that the program was established in 1975, with a 50:50 funding split between the Victorian Government and local councils.¹⁸ They said information from the Department of Education states ‘VicRoads and local municipal councils share responsibility for school crossings, including the establishment of the crossing, training and employment of school crossing supervisors and the supply of flags, uniforms and equipment’.¹⁹ The Government sets the total funds available for the scheme each year as part of the budget process.²⁰

However, the council argued that in recent years the amount provided for the program by the State Government has resulted in an unequal proportion being paid by councils. They said: ‘there is not an equal sharing of responsibility for school crossings, with

¹⁴ Rural City of Wangaratta, *Submission 46*, p. 5.

¹⁵ Damian Hogan, Chief Financial Officer, Mooney Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 30.

¹⁶ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 39.

¹⁷ Mitchell Shire Council, *Submission 81*, p. 27.

¹⁸ Rural City of Wangaratta, *Submission 46*, p. 5.

¹⁹ Rural City of Wangaratta, *Submission 46*, p. 5.

²⁰ Victorian Government, *Interim School Crossing Supervisors Subsidy Guidelines*, June 2024, p. 2.

some councils funding as much as 80% of the costs associated with the school crossing supervision.²¹ They added:

In 2013/14 Council received \$38,690 of funding for the school crossing program. This funded just around 50% of the direct labour costs associated with the delivery of this program in 2013/14. In 2024/25 Council expects to receive around \$84,000 in funding from the Victorian Government, which will be less than 40% of the costs associated with the delivery of the program.²²

The Committee heard from a number of councils²³ that they receive funding for the employment of crossing supervisors, but no funding for the maintenance of crossings or the establishment of new crossings. Sarah Johnston, General Manager, Business Excellence at East Gippsland Shire Council, gave an example:

We have got about 20-odd school crossing supervisors. We get a grant for those, but it does not cover the cost of providing that service to our community. There are three or four of our school crossings that do not fit into the grant application process, but our community have said from a safety perspective they want supervisors at those areas, so we fund that for our community.²⁴

Cr Stuart King, Mayor of the Rural City of Swan Hill, said that his council had borne additional employment costs, which have been a financial pressure for the council:

Costs have increased significantly due to changes in employment laws, and this has meant that over the last five years costs for council to fund school crossing supervisors have increased 267 per cent. In the 2023–24 financial year the cost to council was \$107,000 without taking into account management components, and the current ratio of funding is 40 per cent state government and 60 per cent council.²⁵

Ms Wightman from Merri-bek City Council, noted that councils were not obliged to provide school crossings under the *Local Government Act*, but did so as local roads become busier:

In 2022–23 the state government funded 46 per cent of our cost and Merri-bek funded the remaining 54. Local governments are not obliged to provide school crossings under the *Local Government Act*; however, the number of approved school crossing sites has increased over the years as roads get busier, and not providing this service would have a significant impact to our community.²⁶

The Committee notes that a 50–50 funding split for this program has been re-established for the next two years in the 2024/25 state budget. The Victorian

²¹ Rural City of Wangaratta, *Submission 46*, p. 5.

²² Rural City of Wangaratta, *Submission 46*, p. 5.

²³ See for example, South Gippsland Shire Council, *Submission 33*, p. 10.

²⁴ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 17.

²⁵ Cr Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 2.

²⁶ Jemma Wightman, Chief Financial Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 62.

Government has allocated \$57.3 million to ensure the funding split is equal.²⁷ The Committee hopes the additional funding will enable councils to provide additional crossings if needed.

The Committee notes that this funding has only been committed for the next two years. This program is highly valued and it is important the councils are able to provide a service that meets community needs without financial pressure. As a result, the Committee believes the Victorian Government should ensure that the 50% funding split remains ongoing to ensure that generations of children to come can benefit from this important program.

FINDING 40: The Victorian Government has significantly reduced funding for the School Crossing Supervisor program and has failed to uphold its agreed equal funding arrangement with local councils. This has placed additional financial pressure on councils and risks the sustainability of this important service.

RECOMMENDATION 31: That the Victorian Government ensure that funding for the School Crossing Supervisor program is reinstated at a 50–50 funding split with Victorian local councils.

6.3.3 Waste and circular economy

New Ministerial Guidelines for the waste service charge

A significant number of councils reported their concerns with Ministerial Guidelines released in December 2023 regarding the waste service charge. The Guidelines clarify what services councils can include within a waste service charge that is levied on ratepayers separately from rates, and not subject to the rate cap.²⁸ The new guidelines specify that ratepayers can only be charged for services that directly benefit their household, rather than other collective waste services such as rubbish collection from public places or street cleaning.²⁹ Councils report this interpretation differs from established practice and compliance with the new guidelines will be a significant financial burden.

Mike Gooley from LGV explained that the waste service charge is a long-standing fee that was included under the *Local Government Act 1989*, levied on property owners for waste services. He explained that in recent years the charge has evolved to include recycling and resource recovery services.

²⁷ Victorian Government, School Crossing Supervisor Program, <<https://www.vic.gov.au/school-crossing-supervisor-program>> accessed 3 November 2024.

²⁸ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

²⁹ Municipal Association of Victoria, *Submission 105*, p. 69.

In 2022 the *Local Government Act 1989* was amended to reflect the service charge related to ‘waste, recycling or resource recovery services’. Mr Gooley said ‘that means the processing, storage and all the related management of the waste collected from properties’.³⁰ The Minister released Guidelines in December 2023 ahead of the commencement of the 2022 legislative amendment. The Guidelines state it is good practice to align the waste service charge ‘with the specific and tangible service provided to the occupancy it is levied upon.’³¹ Services that should not be included in the waste service charge under the new guidelines are:

- litter and waste collection from public spaces and the provision of public bins;
- street, footpath and drain cleaning;
- graffiti removal;
- municipal tree planting and maintenance;
- general and/or municipal environmental activities such as park maintenance, public education and advocacy.³²

Mr Gooley noted that service rates and charges as a whole for the sector have risen since rate capping was introduced. Stating that ‘service rates and charges revenue in 2016–17 was about \$532 million – that was the first year under rate caps – and since then it has risen to \$1.19 billion in the year 2023–24.’³³ The Committee notes that one factor in this rise may be that a number of councils have introduced a waste service charge since rate capping began. This is so that the revenue can be raised for the provision of waste services outside of the rate cap.³⁴

The Committee heard that the decision to specify that the charge should relate directly to the waste services provided to a property, arose from a 2018 report by the Victorian Ombudsman. The charge specification was subsequently supported by the Auditor General and the Essential Services Commission. Mr Gooley explained:

The Victorian Ombudsman investigated Wodonga City Council’s waste service charges practices, and at that time they determined that the revenue collected by the service charge should not be used for services other than that which the service was levied for. So it is really quite specific with regard to those charges. The Ombudsman also found that Wodonga City Council at the time was overcharging their ratepayers and channelling the revenue from that funding to other council services. This was followed up then by the Auditor-General and also the Essential Services Commission, and there was also a review into the rating system in 2020. They have all considered that matter

³⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

³¹ Department of Government Services, *Local Government Service Rates and Charges, Minister’s Good Practice Guidelines for their use*, 2023, p. 5.

³² Department of Government Services, *Local Government Service Rates and Charges, Minister’s Good Practice Guidelines for their use*, 2023, p. 5.

³³ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

³⁴ Essential Services Commission, *The Outcomes of Rate Capping*, 2023, p. 12.

and come to the same conclusion, that good practice is about being very clear that the charge that is on a property should be for the services on that property.³⁵

Mr Gooley reported that in 2022 a consultative working group was formed that included FinPro, the Revenue Management Association and the Municipal Association of Victoria, along with LGV staff. He said:

The working group stepped through setting up the guidelines. That was the focus. The actual service rates and charges, as they came through those, really were clarified as a part of talking to those stakeholders to understand what fully transparent and good practice would look like. Really it is just about making sure that ratepayers are not overcharged for their kerbside services.³⁶

However, the MAV informed the Committee that the consultation ‘was held confidentially with peak bodies not able to seek the input of members.’³⁷ They had concerns about the new scope of the charge relating only to services levied on properties, saying it departed from established understandings:

The guidelines represent a major departure from both the existing understanding of how waste charges are used, and the broader move to principles based approach rather than prescription that has been emphasised since the implementation of the Local Government Act 2020.³⁸

This was also discussed by John Baker, CEO of Mornington Peninsula Shire Council, who said his council introduced the charge in 2016–17 to incorporate private and public waste and cleaning services. He believed his Council’s broad definition at the time was backed up by Supreme Court judgements.³⁹

The Committee heard the effect of complying with the new guidelines will be financially difficult for many councils, as many were not operating within the new confines set by the guidance. Mr Gooley said ‘when the guidelines were put out, it became apparent that in fact a majority of councils were probably acting outside of strictly those streams.’⁴⁰

The MAV reported that only 20% of councils were complying with the new Guidelines. In the 39 councils that did not yet comply, the estimated cost for moving additional cleaning and waste services out of the waste services charge was ‘\$103.2 million with a median of \$1.5 million per council.’⁴¹

³⁵ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

³⁶ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

³⁷ Municipal Association of Victoria, *Submission 105*, p. 69.

³⁸ Municipal Association of Victoria, *Submission 105*, p. 69.

³⁹ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 3.

⁴⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, pp. 3–4.

⁴¹ Municipal Association of Victoria, *Submission 105*, p. 69.

A number of councils gave examples of the financial impact of the new guidelines. Kim Jaensch, Chief Financial Officer at Frankston City Council, said:

Frankston City Council also faces a considerable financial challenge in respect to the minister's proposed best practice guidelines in terms of waste charges. Council will potentially need to transition up to \$11 million in municipal waste related costs from the waste charge into its general rates, requiring an exemption from the rate cap from the ESC. These costs include expenditure for such items as street sweeping, collection of waste from public litter bins and funding the net costs of the council's regional recycling and recovery centre.

Council has no ability to absorb these costs and will need to brief the incoming council on the need for a rate-exemption application. This will not be an easy task, given multiple candidates are campaigning on the basis of either complete rate freezes or very low rate increases below the rate cap. Should council not be able to transition funding for these vital services to the rates, or if the incoming council freezes rates, this council's financial position will be in immediate jeopardy.⁴²

Mark Stoermer, Director of Corporate Services at Brimbank City Council, said he expects an annual cost of \$7 million per year:

Is the cleansing charge and the ministerial guidelines that require us to move that charge to be subject to the rate cap, because right now we charge that but it is not subject to the rate cap. For us, if we implement that change, which we will, it will cost us \$7 million per annum. That comes off our underlying surplus and that puts us into a significant deficit, so we are going to have to deal with that.⁴³

While Mornington Peninsula Shire Council expect an annual cost of \$15 to \$18 million.⁴⁴

Some councils were disappointed at the level of consultation they had on the issue. While there was some consultation with peak bodies, they reported little direct consultation. Hume City Council said 'to see the minister release the *Local Government Service Rates and Charges* good practice guidelines in December 2023 without consultation was concerning.'⁴⁵ While Mornington Shire reported 'very little consultation'.⁴⁶

Kat Panjari, Director of Strategic Foresight and Partnerships at the MAV said that if there were better consultation on this issue it could have been avoided:

They have recommended the reinstatement of regulatory impact statements for new and sunseting regulations, and we think if there was a broader scope of that approach

⁴² Kim Jaensch, Director Corporate and Commercial Services, Frankston City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 14.

⁴³ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 5.

⁴⁴ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 3.

⁴⁵ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 51.

⁴⁶ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 3.

that we would be able to deal with this kind of scenario in the future. Had we gone through a more regulatory process of really measuring and monitoring the impact of this change, we would not have ended up in this unintended circumstance. So there are policy-shift and cost-shift implications.⁴⁷

The MAV said it is councils may need to apply for a rate cap variation to sustain the additional costs arising from the new guidelines:

Communities expect councils to maintain clean public places, and the delivery of education is a vital part of improving waste avoidance and resource recovery. As such, councils would likely need to move the costs of these into the general rate. In a rate-capped environment this would require an application to the Essential Services Commission for a variation to the rate-cap.⁴⁸

Sarah Brindley, Director, Corporate & Leisure at the Rural City Wangaratta, also reported that some councils are looking at rate cap variations to sustain the added expense:

I imagine you are aware of is the waste best practice guidelines. Some councils are looking at rate cap variations just to move the revenue from waste service charges to rate charges, ideally to avoid going through a whole community engagement process for a change like that.⁴⁹

Mark Stroemer, Director, Corporate Services at Brimbank City Council, advocated for the Essential Services Commission to introduce a simplified system for this year to be able to vary the rate cap to allow councils to shift this charge from a waste charge into their general rates, which would 'not have an impact on the rate payer'.⁵⁰

The Committee agrees that compliance with the new guidelines will be a significant financial impost on councils, one which some will find hard to withstand, given the already precarious financial position of some in the sector. The Committee believes the Essential Services Commission and Local Government Victoria should engage with councils to discuss the best way to accommodate the provision of much needed community services such as public bin collection, street sweeping and graffiti removal within the rate cap. This may include a streamlined process for a rate cap variation on the basis of compliance with the new waste service charge guidelines.

RECOMMENDATION 32: That the Essential Services Commission and Local Government Victoria engage with the local government sector, including individual councils, to discuss the best way to fund the provision of much needed community services such as public bin collection, street sweeping, and graffiti removal.

⁴⁷ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 17.

⁴⁸ Municipal Association of Victoria, *Submission 105*, p. 69.

⁴⁹ Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 52.

⁵⁰ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 5.

Increases in the waste levy

The Victorian Government charges a levy per tonne on waste disposed of to landfill. This is intended both as a price signal to reduce waste, and funds the work of some government agencies in the sector, including the EPA, sustainability Victoria and Recycling Victoria.⁵¹ The levy is charged to all users, however, local government is a significant user of landfills through kerbside municipal waste.⁵²

The Committee heard that the price of the waste levy has increased significantly in recent years and is set to rise further in coming years. According to the MAV:

In 2022–23 the waste levy generated \$457m in revenue, and we estimate \$157m of this came from councils through kerbside and municipal waste. The Victorian Budget 2024–25 announced an intent to increase the levy by 35% in 2025–26. Even without accounting for population growth we estimate this would see councils paying a total of \$212m in waste levy.⁵³

Hobsons Bay City Council gave an overview of the increases in the levy since 2019–20 and said the additional costs have significantly strained the council's finances:

The increase in the landfill levy and the restrictions on waste charges have significantly strained Hobsons Bay City Council's finances. The income data reveals a noticeable decline in funds available for waste management, primarily due to state-imposed costs. Consequently, Council has had to divert resources from other services to cover the shortfall, adversely affecting overall service delivery. Here is a historical perspective on the landfill levy increase.

- Landfill levy in 2019/20: \$64.30 per tonne
- Landfill levy in 2023/24: \$129.27 per tonne
- Levy increase from 2019/20 to 2022/23: \$64.95 (+101.04%)

State legislation mandates material separation for recycling, necessitating an additional collection cycle and infrastructure. Although initial funding has been provided to establish these services, the ongoing costs are directly passed on to residents, further compounding the financial pressure on local councils.⁵⁴

Hume City Council reported similar rises and said it was not viable for the Council to continue to absorb it.⁵⁵

Hume City Council noted that some of the funds collected from the levy went to the Sustainability Fund, which funds projects dedicated to resource recovery and the

⁵¹ Municipal Association of Victoria, *Submission 105*, p. 74.

⁵² Municipal Association of Victoria, *Submission 105*, p. 74.

⁵³ Municipal Association of Victoria, *Submission 105*, p. 74.

⁵⁴ Hobsons Bay City Council, *Submission 32*, p. 7.

⁵⁵ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 51.

circular economy.⁵⁶ The Council advocated for resourcing from the Sustainability Fund to be dedicated to helping councils support resource recovery:

Finally, as mentioned, Victorians have been paying the landfill levy when disposing of waste in landfills. Since the introduction of the levy, Hume has contributed over \$40 million. As of 30 June 2023 the cash balance of the Sustainability Fund was \$201.1 million, projected to reach \$1.4 billion by 2026–27. It is council's view that these funds should be more actively utilised to support councils to manage landfills, reduce dumped rubbish and to assist with the implementation costs of Recycling Victoria's policy.⁵⁷

Similarly, the MAV advocated for resourcing from the waste levy to be put towards waste minimisation programs, ultimately reducing the amount councils had to pay for the waste levy.⁵⁸

FINDING 41: Ongoing increases in the waste levy are a financial burden for some Victorian councils.

6

Fire Services Levy and renewable energy facilities rating scheme

The Fire Services Property Levy (FSPL) in Victoria is a tax imposed to fund the state's fire services, which includes both Fire Rescue Victoria and the Country Fire Authority (CFA). The levy is collected by local councils on behalf of the Victorian Government.

Livia Bonazzi, Chief Executive Officer of Murrindindi Shire Council, said:

It is a very difficult process because the community does not discern what is council revenue raising versus revenue raising on behalf of the council. It is also an extra cost to council when we have to chase debt, because we actually have to chase debt on behalf of the government. So it is a hard story, and those fees have gone up higher than our own council rates and yet our staff are left to deal with the complaints and the queries.⁵⁹

The Wallaloo and Gre Gre District Alliance submission also explained issues regarding the Fire Services Property Levy and renewable energy projects:

The Fire Services Levy cannot be overcharged to farmers (80% increase) as is the current situation, with most of this increased revenue going to the city and then renewable energy and transmission companies given subsidized rates. This renewable infrastructure directly causes excessive fire risk in the high fire danger area of central Victoria.⁶⁰

56 DEECA, *Sustainability Fund*, <<https://www.environment.vic.gov.au/sustainability/sustainability-fund>> accessed 4 November 2024.

57 Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 51.

58 Municipal Association of Victoria, *Submission 105*, p. 74.

59 Livia Bonazzi, Chief Executive Officer, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 23.

60 Wallaloo and Gre Gre District Alliance, *Submission 112*, p. 3.

Renewable energy facilities frequently rely on local infrastructure and services, including roads for equipment transport and emergency response support. By paying full rates, these projects would contribute their fair share toward the costs of maintaining and improving these services, just as other businesses and residents in the community do.

Alexandra Matthews from Wallaloo and Gre Gre District Alliance said during a public hearing:

Payments in lieu of rates schemes we think should be reviewed just to make sure that these renewable and transmission companies are not getting a free ride. It is not up to council and state to make regional Victoria a good investment for RE companies; they should be there to advocate for their communities. The fire services levy should not have been overcharged to us; again, that should go to the RE companies. It is not our responsibility to make it easy for them to set up shop, essentially.⁶¹

Marcia McIntyre from Wallaloo and Gre Gre District Alliance further added:

Basically the amount that they have been charged has been significantly reduced while it has been put up on the farmers, who are actually already the volunteers doing the work. It is a ridiculous situation considering the fire risk involved both by starting and also fighting around these renewable energy transmission lines.⁶²

The issue of legacy contaminated land sites was also provided as evidence to the Committee. During a public hearing, Mr Stoermer, from Brimbank City Council explained:

I guess another thing that is unique to Brimbank is that we were traditionally the tip spot for Greater Melbourne, and we have tips that we have to manage. We also have significant land contamination because we were the manufacturing hub of Melbourne as well. We have not estimated the total liability potential for the land contamination issues, but that is actually something that I am working on, because I think we have to plan for that. That is actually an opportunity for potential funding down the track in terms of how we deal with that, because that really is an issue that relates, we think, to the entire state in terms of the history of our area. Perhaps that should be a shared funding arrangement.⁶³

RECOMMENDATION 33: That the Victorian Government establish a fair and just funding arrangement with local councils regarding the management of legacy contaminated land sites, particularly those that have historically serviced wider local government areas.

⁶¹ Alexandra Matthews, Wallaloo and Gre Gre District Alliance Incorporated, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 7.

⁶² Marcia McIntyre, Wallaloo and Gre Gre District Alliance Incorporated, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 7.

⁶³ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, pp. 3–4.

6.3.4 The immunisation charge

The Committee became aware of an example of cost shifting during the course of its Inquiry. The Department of Health completed the rollout of a new database for immunisations called Central Immunisation Records Victoria. It replaces an older system, which took ‘significant effort and investment to replace’.⁶⁴ At the time of writing this report, the annual fee for each council is \$6,000 and \$2 per immunisation administered by council.

A letter to councils using the system, provided to the Committee in response to a Question on Notice said that the new system had completed its startup phase and that the Department determined a new co-funding model will be implemented:

Given the CIRV system has transitioned out of the initial start-up phase, the Department has determined that a new co-funding model commencing from 1 October 2024 will be implemented, to enable the continued operation of the system and provision of support to your organisation.⁶⁵

At a public hearing in Camperdown, Cr Kate Makin, Mayor of Corangamite Shire Council, explained that the Council had been informed of the new charge in recent days. She considered the charge an example of cost shifting. She noted the cumulative impact of successive additional charges over time on Council budgets:

In recent days council has also been advised that we must co-fund the Department of Health’s central immunisation register. We have been advised that we will be charged \$6000 plus \$2 for each immunisation registered each year. This is described by the department as ‘a new co-funding model’. I would call it cost shifting. While this is a small cost in the scheme of our budget, the cumulative impact of these small cuts compound and become significant over time, and in a rate-capped environment, communities in the end miss out.⁶⁶

Matthew Hyde, CEO of Wodonga City Council, said the Victorian Government promised the access to the service would be free. He considered immunisation a service that should be provided by the Victorian Government:

Wodonga city provides this service to a number of the councils that surround us. Those increases in cost, while minor, are cumulative in effect with a number of other matters. For us, for example, we have confirmed that it will be a \$4000 licence fee, whereas the state did promise when that software was originally introduced that it would be a free service ongoing. Then each year additionally for each service we provide – so for each episode, if you like, in regard to an immunisation – there will be approximately another \$6000 on top of that based on our 2023 immunisations.

⁶⁴ Department of Health, *Central Immunisation Records Victoria (CIRV) Operational Support Co-Funding Webinar*, 21 August 2024, <<https://www.parliament.vic.gov.au/4aafa8/contentassets/6e3284c4d99f4dd4a054594442553ff6/reply-gon3c.-cirv-co-funding-webinar-21-08-2024.pdf>> accessed 4 November 2024.

⁶⁵ Department of Health, *Central Immunisation Records Victoria (CIRV) Operational Support Co-Funding Webinar*, 21 August 2024, <<https://www.parliament.vic.gov.au/4aafa8/contentassets/6e3284c4d99f4dd4a054594442553ff6/reply-gon3c.-cirv-co-funding-webinar-21-08-2024.pdf>> accessed 4 November 2024.

⁶⁶ Cr Kate Makin, Mayor, Corangamite Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 13.

Ten thousand dollars in the immunisation program seems quite minor for a fact that health services are actually a service that should be provided by the state government, and hence we should be at no cost disadvantage to provide that.⁶⁷

Steven Piasente, CEO of Latrobe City Council, said during a public hearing:

Yes. Actually I am part of the regional cities network, and as soon as we received that all the regional city CEOs were saying, 'Hang on, what's going on here?' That system was introduced, so we were doing some work going back to government saying, 'We think that's unreasonable. It's another imposition of a charge.' We tend to see that, I suppose, things are initially started in one form and then the costs are reduced or there is a charge introduced and we then have to pick that up. So we have seen that.⁶⁸

Mr Hyde then speculated that if the state was recovering small costs in the provision of the immunisation program, whether his council should recover costs for the roadside management of state roads.⁶⁹

Kristen Alexander, CEO of Mansfield Shire Council, also noted that her Council was told the program would continue to be free to use. She explained that while the charge 'might seem small in the overall scheme of things' that 'all these costs add up for a small rural shire'.⁷⁰ While Greg Box, CEO of Bass Coast Shire Council, stated that his Council might have to pass the cost onto the people who are getting immunised.⁷¹

The Committee observes that passing on the cost of immunisation administration to consumers, although potentially a small fee, would act as a disincentive to participate in a program that is vitally important for community health.

A webinar briefing for councils by the Department of Health on this issue provided stated that the Department had funded the operational costs for the program until now, but that 'Due to the current fiscal constraints in the state, the department has sought to continue CIRV operations and support councils via a co-funding model.'⁷² This suggests that the reasons for passing the costs onto councils are motivated in part by the Victorian Government's own financial considerations. It has been passed onto councils in contravention of their reports that ongoing access to the scheme would remain free.

67 Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 49.

68 Steven Piasente, Chief Executive Officer, Latrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 37.

69 Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 49.

70 Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 57.

71 Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 7.

72 Department of Health, Central Immunisation Records Victoria (CIRV) Operational Support Co-Funding Webinar, 21 August 2024, <<https://www.parliament.vic.gov.au/4aafa8/contentassets/6e3284c4d99f4dd4a054594442553ff6/reply-gon3c.-cirv-co-funding-webinar-21-08-2024.pdf>> accessed 4 November 2024.

FINDING 42: Councils who use the Department of Health’s Central Immunisation Records Victoria have been informed they will be charged an ongoing fee to access the system. Councils reported this is in contravention of assurances that ongoing access to the scheme would remain free.

RECOMMENDATION 34: The Victorian Government should reverse the annual immunisation tax of \$6,000 and the \$2 fee per immunisation administered by local governments, and instead provide sufficient funding for this responsibility, which falls under the purview of the Victorian Government.

6.3.5 Maintenance of state assets

Councils contribute to the upkeep of some state government assets. This includes agreements with the Victorian Government to maintain state government assets, known as Municipal Maintenance Agreements. However, the Committee was informed that the funding for some of these agreements have not kept pace with increased costs. Similarly, councils may be involved in committees of management for crown land reserves, for which they incur significant costs.

The submission from the MAV discussed the increased costs incurred by councils for Municipal Maintenance Agreements. They gave an example of a typical agreement:

A typical example would be an MMA with the Department of Transport and Planning to undertake street sweeping, and vegetation and litter management on and around a state road.⁷³

The MAV explained that funding for the agreements was not sufficient to carry out the work. The MAV stated that councils were effectively subsidising the maintenance of state assets, which was hard to justify, given their own financial pressures.⁷⁴ They provided an example of the City of Yarra, who had ceased to maintain assets because it cost them 10 times more than they were being funded for:

In April 2024 The City of Yarra resolved to cease open space maintenance, drain cleaning, and hazard response and reduce the frequency of street sweeping on state roads within the municipality. Yarra found that the cost of delivering service was exceeding the funding provided by the state 10:1.⁷⁵

Kat Panjari from MAV, said that the State Government had been benefiting from these arrangements because they were able to be delivered more efficiently by local councils. However, councils were now withdrawing from the arrangements:

Councils are also having to withdraw from arrangements the state government has directly benefited from. Many councils have arrangements to maintain state assets

⁷³ Municipal Association of Victoria, *Submission 105*, p. 75.

⁷⁴ Municipal Association of Victoria, *Submission 105*, p. 75.

⁷⁵ Municipal Association of Victoria, *Submission 105*, p. 75.

such as the weeds and vegetation on roadsides. This has been an efficient use of local resources that the state have not had to apply their resources to. However, funding arrangements have now gotten so far removed from actual costs that councils are forced to withdraw. The City of Yarra estimate that the costs to maintain state assets were up to 10 times the funding that they were provided.⁷⁶

In relation to management of crown land, the Committee heard that councils may be asked by Committees of Management who oversee the management of crown land to undertake maintenance or capital works. Often councils will carry out this work without appropriate reimbursement. Mary-ann Brown Chair of Rural Councils Victoria, explained:

Many rural councils have a lot of Crown land in their municipal areas, and there are Crown land committees that manage that land on behalf of the state. However, there is very little ongoing financial support from the state for those responsibilities, and those committees often look to councils to provide financial support, whether it is for capital works or ongoing operational aspects.⁷⁷

This issue was discussed by Allison Jones, Director of Performance & Innovation at South Gippsland Shire council, who said:

The other thing the state government could definitely consider is renewing their own assets in our community, because we have got footy clubs that are on Crown land and they are getting no money for asset maintenance or renewal, so the pressure comes back to us. It is very difficult to explain to the average community member that in the town next door we are renewing their asset but we are not in their town because it is on Crown land. So I think there is definitely an asset management gap that DEECA needs to consider.⁷⁸

Similarly, Carol Jeffs CEO at Cardinia Shire Council, said it was a financial challenge to contribute to the management of Crown land, and that there was pressure to 'to build infrastructure and maintain services'...she added 'those costs have escalated significantly in the last few years.'⁷⁹

Ms Jones said during a public hearing:

The other thing the state government could definitely consider is renewing their own assets in our community, because we have got footy clubs that are on Crown land and they are getting no money for asset maintenance or renewal, so the pressure comes back to us. It is very difficult to explain to the average community member that in the town next door we are renewing their asset but we are not in their town because it is on Crown land. So I think there is definitely an asset management gap that DEECA needs

⁷⁶ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 15.

⁷⁷ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 52.

⁷⁸ Allison Jones, Director Performance and Innovation, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 23.

⁷⁹ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 27.

to consider. We are required to have a 10-year asset management plan under the Local Government Act, whereas we talk to DEECA and there is not the same requirement on state assets. That is something that could be considered.⁸⁰

Tammy Smith, CEO of Yarriambiack Shire Council also said:

I might just add to that. Just as an example, the Murtoa netball and tennis courts need to be redone because they are cracked and damaged. We needed a co-contribution of I think it was around \$250,000, and the community has come up with \$130,000 to contribute. What we find is a lot of our assets are aged across all of our communities, but they are also state government assets as well. This is where it is really difficult for rural councils, because we tend to put council's money into assets that we own where our legal liability sits, and so some of these community groups miss out or they are having to raise funds from their own communities to try and come up with co-contributions to go for some of these grants. It is a testament to the work the Murtoa community has done. But Hopetoun has done something similar; whilst we own the asset, they raise funds. Brim also had to raise \$150,000 to be able to get their netball and tennis courts redone as well. These are some of the challenges that our rural communities are facing.⁸¹

FINDING 43: In some cases, councils who have agreements to maintain State Government assets or Crown land are not adequately funded to do so.

RECOMMENDATION 35: That the Victorian Government should consider Crown Land and associated assets that are currently managed by a Committee of Management to be formally transferred to local government ownership, where requested.

RECOMMENDATION 36: That the Victorian Government ensure funding is provided to support agreements to maintain State Government assets or Crown Land.

6.3.6 Maternal and Child Health

Maternal and Child health is another area that councils reported additional cost burdens as a result of a failure of the proportion of state government funding to keep up with the actual cost of delivery.

The Committee heard from Rhys Thomas, Head of Local Government Programs at the Victorian Local Governance Association. He explained that local councils have a long

⁸⁰ Allison Jones, Director Performance and Innovation, South Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 23.

⁸¹ Tammy Smith, Chief Executive Officer, Yarriambiack Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 46.

history of delivering services. According to community satisfaction surveys across the sector it continues to be one of the most valued services provided by local councils:

Maternal and child health services have always been delivered by local councils. In fact their origin is in local government. The community satisfaction surveys which get run consistently or have been done for many years – and the last one was released just last week – show that maternal and child health services are very highly valued by members of the community, rated as very important, and pleasingly there are very high satisfaction rates as well. I think the short answer is, as we have said consistently this afternoon, it is for communities to decide what services local governments should deliver, and communities have consistently and loudly said that maternal and child health services should be delivered by their trusted local councils.⁸²

The MAV outlined a strong partnership between state and local government to deliver the service and explained that that like library funding, in the past the state had funded 50% of the program costs.⁸³ However, the MAV informed the Committee that in recent years, there has been a shift in state government funding, resulting in the program being under resourced.

The unit price, the basis for funding allocations, is severely out of date and has not kept pace with inflation. In the current fiscal environment, where families have increased complexities due to the impacts of the COVID-19 pandemic, councils are unable to continue to subsidise the State Government contribution. There is a legitimate concern that in some municipalities the MCH service will be unable to continue providing for the needs of children and families.⁸⁴

Councils explained that they were expected to provide more and more of the proportion of the cost of the program. Stuart King of Swan Hill Rural City Council, said the funding split 'is now about a 30–70 split.'⁸⁵ He added 'it is one of those services where the expectation is that council will deliver it, and now council is bearing the brunt of the cost'.⁸⁶

Sheena Frost, CEO of Hume City Council, said that the additional cost burden meant the Council was having to make choices about the level of service provided.⁸⁷ She explained:

We have excellent rates of attendance at our MCH service, and I would not like to see that decrease, but that is an outcome that might happen if we cannot actually sustain the service and keep it staffed and levelled with the supports that are required to support that level of attendance and participation in the service.⁸⁸

⁸² Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 32.

⁸³ Municipal Association of Victoria, *Submission 105*, p. 76.

⁸⁴ Municipal Association of Victoria, *Submission 105*, p. 76.

⁸⁵ Cr Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 2.

⁸⁶ Cr Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 2.

⁸⁷ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 56.

⁸⁸ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 56.

Ms Frost said she'd like to see the state government ensure 'that the funding actually meets the cost of delivering the service and that the gap does not keep rising'.⁸⁹

The MAV provided a similar recommendation:

To stop this from occurring there needs to be an immediate uplift of the unit cost while the further work can be done to assess the true cost of service delivery and reestablish an equal cost-sharing arrangement...

... We need a clear commitment from the Victorian Government to restore 50:50 funding between state and local government.⁹⁰

Mitchell Shire Council's submission also stated:

Maternal and Child Health was once funded equally by State and local government, this important service along with playgroups and immunisation is set to cost Mitchell Shire around \$1.5m in 2023/24.⁹¹

The Committee agrees. Maternal and Child Health is an important service that provides important support for mothers and their children at a critical time. The Victorian Government must ensure that it's funding keeps up with the delivery cost for councils.

FINDING 44: The existing funding model for Maternal and Child Health services places an excessive financial burden on local governments, particularly regarding immunisations, staffing, and facility costs, threatening the long-term sustainability of these services.

RECOMMENDATION 37: That the Victorian Government move towards re-instating a 50–50 funding split with Victorian local councils for maternal and child health services.

6.3.7 The Victorian Government's 'Free Kinder' program

While the Victorian Government claims the program is free, local councils usually bear a substantial amount of the associated costs, particularly for the implementation and delivery of the service. Costs related to staffing, facilities, administration, and increased demand are not covered by the Victorian Government in full.

Andrew Mason, CEO of Warrnambool City Council, told the Committee:

I think what we are finding is that increasingly the issue with free kinder and three- and four-year-old kinder is, firstly, finding the workforce to deliver those services, and secondly, the capital cost of building and upgrading new kinders, given high inflation

⁸⁹ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 56.

⁹⁰ Municipal Association of Victoria, *Submission 105*, p. 76.

⁹¹ Mitchell Shire Council, *Submission 81.1*, p. 27.

in the construction industry has become an issue for us. The Building Blocks grants that are on offer are increasingly not covering the full cost of new or upgraded kindergartens... Well, it is certainly not free to council.⁹²

Jim Nolan, CEO of Pyrenees Shire Council, further added:

In Pyrenees we do not provide the services directly, they are provided by a service provider. Council provides the facility and the service providers ...

As Andrew said, the biggest cost is in the capital cost, and these are somewhat ageing facilities. I know the state has provided full cost of the extension to the Beaufort facility, but I do not have the actual costs of the original construction at this stage.⁹³

RECOMMENDATION 38: The Victorian Government should honour its commitment to fund 100% of its 'Free Kinder' program and the three- and four-year-old kinder programs, and not cost-shift to local government enormous capital and recurrent costs.

6.4 Legislative and regulatory cost shifting

As well as financial cost shifting described in the previous section, councils informed the Committee that legislative and regulatory changes made by the state government had a significant impact on their financial situation. These changes may include the addition of new responsibilities for councils, or compliance requirements. Other legislative changes limit the amount of revenue councils may collect in exchange for services such as planning.

The MAV stated that it's rare a legislative impact statement is conducted, and there are often tight timelines once a bill is introduced to parliament:

Even where concerns are raised, there is a strong underlying preference to pass legislation as introduced without amendments. After legislation is passed any further changes can be extremely slow to progress, even when necessary to address important issues.

Outside of the public consultation for a RIS, when consultation is undertaken it is increasingly perfunctory. A small number of stakeholders may be consulted, strict timelines imposed, and complete confidentiality sought.⁹⁴

The MAV advocated for a co-design approach for legislation significantly impacting councils. It said this approach will lead to better informed policy development leading to better outcomes for the community, councils, and the State Government.⁹⁵

⁹² Andrew Mason, Chief Executive Officer, Warrnambool City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 57.

⁹³ Jim Nolan, Chief Executive Officer, Pyrenees Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, pp. 57–58.

⁹⁴ Municipal Association of Victoria, *Submission 105*, p. 58.

⁹⁵ Municipal Association of Victoria, *Submission 105*, p. 58.

RECOMMENDATION 39: That Local Government Victoria work with the sector to develop a co-design process to ensure that the impacts of legislation on local government are considered.

6.4.1 Regulatory burdens

The Committee was informed of a number of regulatory issues or changes which result in additional administrative or operational costs for councils. While some noted that the private sector must also incorporate regulatory costs into their business model,⁹⁶ councils explained they not only comply with regulation, but are asked to take up new legislative functions.

These regulatory and compliance burdens include swimming pool regulation, which Hobsons Bay City Council informed the Committee, involves the transfer of enforcement of domestic swimming pool inspections to local councils. For Hobsons Bay City Council, this has necessitated hiring an additional staff member at \$75,000 annually.⁹⁷

The management of roadside weeds and pests is another issue which East Gippsland Shire Council report is a significant cost for their council due to the 3000 kilometres of road under their management.⁹⁸ Kat Panjari from MAV stated the following during a public hearing:

Councils are also having to withdraw from arrangements the state government has directly benefited from. Many councils have arrangements to maintain state assets such as the weeds and vegetation on roadsides. This has been an efficient use of local resources that the state have not had to apply their resources to. However, funding arrangements have now gotten so far removed from actual costs that councils are forced to withdraw. The City of Yarra estimate that the costs to maintain state assets were up to 10 times the funding that they were provided. Financially sustainable councils can and are often required to step in and respond to issues as they emerge, from addressing social issues like homelessness, which we are identifying across rural and regional Victoria, to emergency response and recovery, and we need to ensure that councils have the ongoing capacity to prevent and step in and respond to local issues as they arise.⁹⁹

RECOMMENDATION 40: That the Victorian Government should provide increased support and funding for weed and roadside management of State Government owned areas to assist local councils in maintaining safe and accessible road networks.

⁹⁶ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 62.

⁹⁷ Hobsons Bay City Council, *Submission 32*, p. 9.

⁹⁸ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 15.

⁹⁹ Kat Panjari, Director Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, p. 15.

Other regulatory burdens include Workcover premiums, for which Knox City Council reported it sustained an increase of over \$800,000 for its premium in 2023–24.¹⁰⁰

Compliance with the Aboriginal Heritage Act when constructing new capital works is another issue raised by councils including Murrindindi, which reported costs in the tens of thousands. It said growth area councils might face hundreds of thousands in compliance costs.¹⁰¹

Other legislative or reporting obligations, including:

- Accounting standards¹⁰²
- Responding to Ombudsman inquiries¹⁰³
- Complying with audits¹⁰⁴
- Compliance with the Gender Equality Act.¹⁰⁵

South Gippsland Shire Council provided an exhaustive list of the regulatory and financial cost shifting they experience as an example of the additional resources councils provide to meet Victorian Government obligations. It is included in Appendix B of this report.

RECOMMENDATION 41: That the Victorian Government work with the sector to develop a co-design process to ensure that the impacts of regulation on local government are considered.

6.4.2 Statutory fees

The Committee heard that councils are absorbing costs from the provision of services for which the Victorian Government has mandated fees which do not recover the cost of providing them.

The MAV explained that most fees and fines are set in terms of fee units or penalty units that are indexed, usually in line with CPI, each year. When the State Government considers cost recovery in setting the fees, it looks at ‘median costs across councils or a level where some majority of councils might achieve cost recovery.’ The MAV said:

This means that many prescribed fees are set at a level where cost recovery is not possible for a portion of councils ...

¹⁰⁰ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 39.

¹⁰¹ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 18.

¹⁰² Hobsons Bay City Council, *Submission 32*, p. 10.

¹⁰³ Hobsons Bay City Council, *Submission 32*, p. 10.

¹⁰⁴ Hobsons Bay City Council, *Submission 32*, p. 10.

¹⁰⁵ Yarriambiack Shire Council, *Submission 45*, p. 7.

... we find that the level needed for cost recovery is often underestimated across the board. We believe that this could largely be solved by extending a level of trust and treating councils as partners.¹⁰⁶

One area a number of councils said was a particular issue was planning fees, which did not keep pace with the actual cost of delivery. Rhys Thomas from the VLGA, explained:

The planning application fees have simply not kept pace with the cost of processing those applications given their increasing complexity. The fact that we have seen permit delay times blow out right across the sector is in part due to that reduced funding ...

... if the planning application fees had kept pace with cost of those assessments, then perhaps the planning system would be in slightly better shape than it is now.¹⁰⁷

Sheena Frost, CEO of Hume City Council, said that planning fees set below the cost of recovery was a big issue for her Council, which is a growth area that provided planning services for 3000 new homes in the last year. The cost to her Council to deliver the planning services was \$5.2 million.¹⁰⁸

The Committee also heard this was particularly an issue when processing complex planning submissions.¹⁰⁹ Sue Vujcevic, Director of Business Transformation at Merri-bek Council, also noted that recent planning reforms have centralised some planning decisions with the Minister for Planning rather than councils. However, councils were still asked to provide planning comments on issues within their municipalities, without sufficient remuneration:

The state government planning reforms have increased the matters that are now decided by the Minister for Planning rather than councils, with fees for the assessment of these significant projects up to \$62,000 per application lost to councils. Additional reform changes, which make more planning applications eligible for the VicSmart planning process, also attract only 50 per cent of the standard planning application fee. Yet in both these instances council staff are still tasked with completing a full assessment of the application, receiving half the fee for the VicSmart applications or no fee for proposals before the Minister for Planning to inform advice to the state government on whether council supports or opposes the proposal.¹¹⁰

FINDING 45: Many statutory service fees charged by local councils, including planning fees, are set by the Victorian Government. These fees are set too low for some councils to recover the cost of providing the service.

¹⁰⁶ Municipal Association of Victoria, *Submission 105*, p. 39.

¹⁰⁷ Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 30.

¹⁰⁸ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 50.

¹⁰⁹ Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 23.

¹¹⁰ Sue Vujcevic, Director Business Transformation, Merri-Bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, pp. 62–63.

6.4.3 Changes to windfall gains tax

A windfall gains tax, which seeks to capture the value of re-zoned land came into effect on 1 July 2023. According to the MAV, ‘councils may sell assets that are surplus to requirements to improve their financial position. However, councils are not exempt from the WGT and thus this would attract a liability of up to half the value of the increase in land value’.¹¹¹

The Committee heard this provides a disincentive to councils disposing of land, which may be used for businesses or housing’.¹¹² Carol Jeffs, Cardinia Shire Council, a growth area council agreed, noting it would give significant community benefit to have the windfall gains tax removed:

We do own some land and could provide significant community benefit, or in fact it could be a financial investment for us to provide some additional resources, but because the windfall gains tax applies, that makes the business case for such a thing much less palatable. So from our own perspective, with land that we own it is limiting, and it would be helpful for us from a financial sustainability perspective if we could have a longer term property investment portfolio, either for community benefit or purely for financial purposes. The windfall gains tax does put a dampener on that.¹¹³

Cr Jude Dwight, Knox City Council, also lamented that 50% the profits arising from land or assets that are sold by council are transferred to the state Government. He said:

So it becomes state government consolidated revenue, and it is a frustration when that originally started as a community asset and that gain cannot be put back into community improvement or benefit.¹¹⁴

The MAV advocated for any funds collected from councils as part of the Windfall Gains Tax to be reinvested within the area they were generated. The allocation of any funds would go to infrastructure and service priorities determined in partnership with the local government.¹¹⁵

6.5 The financial impact of cost shifting

The total financial impact of cost shifting considerable. This is particularly problematic because the Victorian Government has limited the capacity of councils to raise revenue with the rates capping policy. Adding to the expenses of councils compounds the financial impact of constraining their revenue.

¹¹¹ Municipal Association of Victoria, *Submission 105*, p. 74.

¹¹² Municipal Association of Victoria, *Submission 105*, p. 74.

¹¹³ Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 31.

¹¹⁴ Cr Jude Dwight, Mayor, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 23.

¹¹⁵ Municipal Association of Victoria, *Submission 105*, p. 74.

The Committee was given a number of assessments of the costs incurred by councils as a result of cost shifting. Kathryn Arndt, CEO of the VLGA said: ‘research conducted recently by KPMG by an inner-city council identified that for some councils cost shifting could be up to 10 per cent of a council’s total budget.’¹¹⁶

The MAV gave a number of examples provided to them by councils on how much they are impacted by cost shifting, including \$38.1 million in the previous financial year from Mornington Peninsula Shire Council:

Mornington Peninsula Shire Council estimates operational costs of \$38.1 m attributable to cost shifting in 2023/24, with projections reaching a cumulative \$234m over the subsequent five years. This is in addition to capital expenditure cost shifting of \$38.4m over the same period. In late 2022 Glen Eira City Council estimated cost shifts of \$18.9m, or 10% of council’s budget for that year. Boroondara City Council undertook qualitative analysis on areas of cost shifting which included libraries, school crossing supervisors, maternal and child health services, urban stormwater, and electric line clearance.¹¹⁷

Mooney Valley City Council provided a table (Figure 6.2) which summarised a selection of additional costs they believed had been imposed on them because of cost shifting.

¹¹⁶ Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 27.

¹¹⁷ Municipal Association of Victoria, *Submission 105*, p. 71.

Figure 6.2 Changing cost allocations for a selection of services for Mooney Valley City Council, 2022/23

Description of Council Service	Estimated Cost for MVCC excl. cost shifting	Cost Shifting Costs	Total Actual Cost 2022/23
Waste Services (landfill levy)	\$ 3,700,900.00	\$ 906,900.00	\$ 4,607,800.00
School Crossing Supervision (reduction in grant funding)	\$ 502,000.00	\$ 820,000.00	\$ 1,322,000.00
Electrical Line Clearance (MVCC cutting branches under power lines that MVCC doesn't own)		\$ 517,244.00	\$ 517,244.00
Urban Planning (out of pocket costs for staff providing advice on matters where MVCC is not the responsible authority)	\$ 408,000.00	\$ 21,430.00	\$ 429,430.00
Building Services (out of pocket costs for staff providing advice on matters where MVCC is not the responsible authority)	\$ 190,000.00	\$ 20,000.00	\$ 210,000.00
Libraries and Learning Centres (reduction in grant funding)	\$ 613,600.00	\$ 1,746,400.00	\$ 2,360,000.00
Maternal Child Health (reduction in grant funding)	\$ 1,187,000.00	\$ 340,000.00	\$ 1,527,000.00
Kindergartens (reduction in grant funding)	\$ 560,000.00	\$ 110,000.00	\$ 670,000.00
Immunisation (reduction in grant funding)	\$ 91,200.00	\$ 98,800.00	\$ 190,000.00
Emergency Management (MVCC out of pocket expenses for climate emergencies i.e. flooding)		\$ 54,000.00	\$ 54,000.00
Total	\$ 7,252,700	\$ 4,634,774	\$ 11,887,474

Source: Mooney Valley City Council, *Submission 40*, p. 6.

Dean Hurlston, President of Council Watch, criticised the lack of engagement from the Victorian Government when announcing policies that have a cost to local government. He argued the Government has to be more responsible and fair on rate payers:

You know, you actually need assistance and help and training and funding and staff to do it. But what we have not seen is an engagement from the state government with councils. We see that with kinder: it has been announced, but there is no plan. What we would like to see the state government do to be much more responsible and fair on ratepayers – who have to fund this or lose a service to do it – is a much wider conversation first. Councils are not the state's useful idiot. Stop treating them like they are.¹¹⁸

Consultation between the Victorian Government and local councils regarding cost shifting are discussed in Section 6.6.

¹¹⁸ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 68.

6.5.1 Resistance to cost shifting from Victorian councils

A number of witnesses were asked by the Committee whether councils should be pushing back against cost shifting policies from the State Government.

The Committee was told in some circumstances councils were not given the opportunity to decline the provision of services or to pay additional costs. Mornington Peninsula Shire Council gave an example of a legislative requirement regarding Committees of Management on Crown land ‘if the state requires us to be a committee of management, we are required to be a committee of management’.¹¹⁹

One Councillor said they would be concerned about the ramifications if the Council declined to bear the costs of cost shifting.¹²⁰ While another Council said ‘the power dynamic is pretty clear as far as state and local government.’¹²¹

The Committee heard examples of councils refusing to take on additional costs. Steven Piasente, CEO of Latrobe City Council, explained that he is part of the regional cities network. He said the organisation had written to the Government about the immunisation charge, (discussed in Section 6.3.4) to say that it was introduced on the basis the Government would be pay for it, and it should be continued on that basis.¹²²

Matthew Hyde, CEO of the City of Wodonga, said that his council had begun withdrawing services in some areas of state government responsibility, noting that the service levels for the community has dropped:

... we are pushing back on government and we are withdrawing services. We are mowing less roadsides that are state government roadsides – those sorts of measures. The \$3 million that staff have saved has meant that some of those service levels have dropped where it is a state responsibility, and we have had no choice but to do that. Unless all councils stand up, like Strathbogie council did around school crossing supervisors, and we join together, it is going to be a very difficult one to face.¹²³

When asked if the Council should send invoices to the Victorian Government for the work they do on its behalf he replied that ‘we do not think we would get a response to that and our community would lose a service that it very much appreciates in that process.’¹²⁴

¹¹⁹ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 7.

¹²⁰ Cr Tony Marwood, Deputy Mayor, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 23.

¹²¹ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 7.

¹²² Steven Piasente, Chief Executive Officer, LaTrobe City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 37.

¹²³ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 53.

¹²⁴ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 53.

Kirsten Alexander from Mansfield Shire Council, noted the difficulty associated with councils discontinuing a service where councils do not receive adequate compensation from the Victorian Government. She explained that in such cases, the community sees it as the council stepping away from a service and there is a backlash.¹²⁵

6.6 The role of Local Government Victoria in relation to cost shifting

As discussed in Chapter 2, Local Government Victoria is part of the Department of Government Services. One of Local Government Victoria's key functions is to 'work cooperatively with Victoria's 79 local councils to ensure Victorians enjoy a responsive, accountable, and efficient system of local government.'¹²⁶

Local Government Victoria's website explains it can facilitate engagement between government departments and councils. This includes when a department or agency:

- intends for local government to administer or enforce new or revised primary legislation or regulation, or act as an agent and deliver services on its behalf
- intends to partner with local government to deliver programs
- intends to fund local government to deliver a program, or
- when the relationship between the Commonwealth Government and local government may be affected due to legislative or other changes.¹²⁷

In these cases, the agency may be able to provide the following services:

- help identify relevant stakeholders
- initiate or facilitate connections with the sector and local government stakeholders
- provide advice on how/when to engage with the local government sector
- provide high-level advice or feedback of proposed policies or legislation on the impact to councils
- provide advice on the *Local Government Act 2020* and its associated regulations, and
- share information on a department's behalf through its existing engagements.¹²⁸

The Committee held a public hearing with Local Government Victoria on 8 October 2024, its last day of hearings. It was the second appearance from the agency, who had also provided evidence to the Committee on 26 June 2024, its first

¹²⁵ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 63.

¹²⁶ Local Government Victoria, public hearing, Melbourne, 26 June 2024, *Presentation to the Committee*, p. 4.

¹²⁷ Local Government Victoria, *Engaging with the Local Government Sector*, <<https://www.localgovernment.vic.gov.au/our-partnerships/engaging-with-the-local-government-sector>> accessed 23 October 2024.

¹²⁸ Local Government Victoria, *Engaging with the Local Government Sector*, <<https://www.localgovernment.vic.gov.au/our-partnerships/engaging-with-the-local-government-sector>> accessed 23 October 2024.

day of hearings. Local Government Victoria was represented by Mike Gooley, Executive Director of Local Government Victoria and Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, Department of Government Services.

Mr Gooley said ‘the day-to-day business of Local Government Victoria is working across the portfolios and working with CEO colleagues to understand where the [financial] pressure points are and where the things are that are important.’¹²⁹

When asked what the organisation does in terms of advocacy about cost shifting he replied:

The obvious one is that we work very closely with our colleagues in Department of Transport and Planning and also across other services. We have no decision rights obviously, but certainly we work very closely with the 79 councils, and we have ongoing conversation with CEOs about where those pressure points are and how we make sense of that. So we work internally with our portfolio partners and other departments. Similarly, the minister receives things from local members, so the minister obviously uses her role to advocate on behalf of local governments with other portfolios as well.¹³⁰

Mr Gooley explained the Department also advises the Minister for Local Government on pressures faced by councils, most often in relation to roads, which comprise ‘probably 90% of the conversations that are had in this portfolio’.¹³¹ When asked what he tells the Minister, Mr Gooley replied ‘There are clearly some pressures, and then that is a conversation which we have with our colleagues at DTP.’¹³²

When asked about advocacy in relation to other areas of cost shifting, apart from transport, he said ‘all we can do is talk to our portfolio colleagues’... He went on to say: ‘Are they being addressed? They are decisions that are made by other departments. We clearly have things that come to us via the network across the 79. We raise those with our portfolio partners.’¹³³

When asked whether Local Government Victoria makes representations to the Minister in relation to libraries, school crossing supervisors and maternal and child health funding, Mr Gooley replied ‘They are ongoing conversations that we have with other departments.’¹³⁴

¹²⁹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

¹³⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 3.

¹³¹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

¹³² Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

¹³³ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 3.

¹³⁴ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

6.6.1 The Victorian State-Local Government Agreement

The Committee notes the existence of the *Victorian State-Local Government Agreement*, (the Agreement). The Agreement suggests that individual departments engage with the local government sector when considering new legislation or regulations that have an impact on local councils or there is a material change in funding agreements.¹³⁵

The Agreement was signed by the MAV and the Victorian Government. It was last updated in 2014 and applies to arrangements where the Victorian Government:

- intends for local government to administer or enforce new or revised primary legislation or regulation, or act as an agent and deliver services on its behalf
 - is, or intends to, partner with local government to deliver programs
 - is, or intends to, fund local government to deliver a program
 - may be affected by the relationship between the Commonwealth Government and local government.¹³⁶

Significantly, it sets out how the Government should consult with the local government sector in relation to legislative and financial cost shifting:

Where the Victorian Government intends for local government to administer or enforce new primary legislation, or new or revised regulation, the relevant lead department shall, subject to exceptional circumstances, consult with local government in accordance with the Victorian Guide to Regulation. In doing so, the relevant department shall consider the impacts of the regulation on local governments, including any cost and resource impacts on local governments of administering the regulation.

The State commits to consultation other than in exceptional circumstances with local government on any material change to funding agreements that impact on local government. It recognises the importance of the resources available to, and the capability of local government, to effectively administer and enforce state regulation.¹³⁷

The full text of the Agreement is included in Appendix C.

The Agreement is still in force, however, this fact is poorly known.¹³⁸ The Committee heard that as a result of low awareness of the agreement amongst key stakeholders, compliance was low. Mr Gooley told the Committee there was a lack of compliance with the Agreement amongst some Departments:

¹³⁵ Local Government Victoria, *Victorian State-Local Government Agreement*, <<https://www.localgovernment.vic.gov.au/our-partnerships/victorian-state-local-government-agreement>> accessed 4 November 2024.

¹³⁶ Local Government Victoria, *Victorian State-Local Government agreement*, <<https://www.localgovernment.vic.gov.au/our-partnerships/victorian-state-local-government-agreement>> accessed 4 November 2024.

¹³⁷ Local Government Victoria, *Victorian State-Local Government agreement*, <<https://www.localgovernment.vic.gov.au/our-partnerships/victorian-state-local-government-agreement>> accessed 4 November 2024.

¹³⁸ Nathan Morsillo, Manager, Financial Strategy, FinPro, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 40.

certainly that 2014 agreement very clearly outlines requirements or expectations with regard to what that consultation and conversation look like. Again, I think it is very important. The reality, though, is that it does not always happen, and that can be for a range of reasons. But certainly from our perspective in LGV, from Local Government Victoria's perspective, it is our job to make sure we are talking to other departments and other portfolios where there are decisions being made which will have an effect. Some of our colleagues are very, very good at flagging those, others less so.¹³⁹

Navec Lorkin, Chief Financial Officer at Knox City Council, gave several examples of recent regulatory changes where the Victorian Government had not complied with the Agreement:

We would probably say that we are not really seeing adherence to that agreement, because the agreement essentially has at the core of it that where cost shifting is involved there should be engagement and consultation with the local government sector, and that is what we are not seeing. For instance, an example of that is the ministerial guidelines for service rates and charges, which was announced without consultation. Even with a number of other cost shifts – for instance, the library services agreements – we are seeing freezing of indexation in those spaces and so are not even keeping up with inflation let alone anything else. So it is really based around the fact that we really want to be a part of that conversation, because the local government sector has a lot to offer. We have a lot of knowledge of the sector, and we could really improve and assist with better outcomes for the community and probably efficiencies across the board for all levels of government, but we just need to be part of that conversation.¹⁴⁰

There is room for improvement to raise awareness of the agreement amongst the local government sector. Nathan Morsillo from FinPro called for the Agreement to be re-activated. While other councils provided recommendations to the Committee for the Government to consult them on regulatory changes,¹⁴¹ indicating a lack of awareness that this should already be happening under the terms of the Agreement.

The MAV believe that practice in relation to consultation on cost shifting has strayed from the principles of the Agreement, and that awareness of the Agreement across Government departments and agencies is low.¹⁴² They state that had the principles of the agreement been more closely adhered to some cost shifting issues could have been avoided through:

- A greater consideration of the potential impacts of the changes on local government services and finances

¹³⁹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 12.

¹⁴⁰ Navec Lorkin, Chief Financial Officer, Knox City Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 41.

¹⁴¹ John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 3; Cathy Henderson, Chief Executive Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 63.

¹⁴² Municipal Association of Victoria, *Submission 105*, p. 68.

- More comprehensive consultation, including with officers responsible for delivering these services
- Consideration of reasonable timeframes for implementation if such a significant change were still being proposed.¹⁴³

The Committee observes such an outcome may have improved the financial situation of councils in relation to cost shifting.

The Victorian Local Governance Association called for the Agreement to be re-activated:

there is currently a *Victorian State–Local Government Agreement*, and that document, that agreement, which is a number of years old now, really does need to be, I guess, reactivated, because that is the mechanism by which the state government can work collaboratively with local government prior to introducing policy and legislation that might have an impact on the sector.¹⁴⁴

The Committee believes the provisions of the Agreement remain sound and are in line with what councils have been reporting to the Committee they would like to see in terms of consultation in relation to cost shifting.¹⁴⁵

The Committee also believes there is a role for Local Government Victoria to more assertively promote awareness of the Agreement amongst Government Departments and agencies. The assertion that ‘They are decisions that are made by other departments’¹⁴⁶ misses an opportunity to improve the financial situation of councils and hinders Local Government Victoria in their key role of ensuring ‘that Victorians enjoy a responsive, accountable and efficient system of local government’.¹⁴⁷

Many local councils expressed a desire to have a voice in decision-making, rather than simply being instructed to implement state government policies and bear the associated costs.

Celia Haddock from M9 and the Chief Executive Officer of Maribyrnong City Council, said:

As demonstrated in our submission, the four key concerns we have relate to, firstly, the need for local government as a sector to be a trusted partner for the Victorian government and to have a seat at the table. We have not had a seat at the table for some time, so it is great to be here today. This is particularly important when

¹⁴³ Municipal Association of Victoria, *Submission 105*, p. 70.

¹⁴⁴ Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 29.

¹⁴⁵ Cathy Henderson, Chief Executive Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 63.

¹⁴⁶ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 3.

¹⁴⁷ Local Government Victoria, *What We Do*, <<https://www.localgovernment.vic.gov.au/what-we-do/local-government-victoria>> accessed 4 November 2024.

considering critical issues that affect local communities – issues such as housing, transport connectivity, waste management and sustainability.¹⁴⁸

Kate Makin, Mayor of Corangamite Shire Council, said during a public hearing:

I would say I would like to be at the table and have those discussions with the state government rather than just being told we have to do this policy and pick up the bill for it. How about we be a seat at the table and actually have those discussions with the state government on these issues? That would be fantastic. I think that is where we need to go with these things.¹⁴⁹

FINDING 46: Awareness of and compliance with the Victorian State-Local Government Agreement amongst Victorian Government Departments and agencies is low. Compliance with the agreement may have resulted in a better understanding of the challenges faced by local government and more realistic compliance timelines.

RECOMMENDATION 42: That Local Government Victoria take a more prominent role in promoting knowledge of the *Victorian State-Local Government Agreement* amongst Victorian Government departments and agencies.

RECOMMENDATION 43: Local Government Victoria should report annually on the compliance of the Victorian departments and agencies in fulfilling their role as part of the *Victorian State-Local Government Agreement*.

6.6.2 An audit of cost shifting

Mr Gooley was asked if there had been an audit on the additional costs to councils as a result of state government financial and legislative cost shifting in recent years, he replied 'we work with portfolios and basically ask the questions about what those things look like. We have not done a full audit, no.'¹⁵⁰

Mr Gooley explained that the breadth of issues dealt with by local government made it challenging to keep informed of developments and that they relied on departmental colleagues to keep them informed:

Again it is no criticism, it is just a part of the broad bureaucratic sweep of making sure that you can get all of the things. I mean, it is also very clear that out of the front doors of local councils there are more than 120-odd services that are put out, and they do touch pretty much every portfolio that the state has. So from our perspective, making

¹⁴⁸ Celia Haddock, CEO Maribyrnong City Council, M9, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 49.

¹⁴⁹ Kate Makin, Mayor Corangamite Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 20.

¹⁵⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 9.

sure that we know what is going on everywhere all the time is pretty much impossible. We certainly rely on our colleagues to help make sense of that.¹⁵¹

Mr Gooley reported that they also rely on peak bodies and engages with the sector through a monthly CEO forum:

We also rely very heavily on the peak bodies with regard to them bringing us issues that are hot and important for the sector. We have a monthly CEO forum, an online one, where we very clearly try and make sure that, where there are state government policy changes or implications, we do try and get my equivalents across other parts of government to come to those meetings and speak directly to the CEOs to give them a heads-up or in fact to have conversations where 'These are some of the things that are going on. How do we make sense of those? What is the perspective of local government on how these might actually affect the sector?' So we do work very hard with regard to making sure that we make those connections.¹⁵²

The Committee notes that the NSW local government peak body, Local Government New South Wales, produces a periodic report on the extent of cost shifting in its sector.¹⁵³

The Committee considers that there is a lack of coordination and oversight on the overall nature and extent of cost-shifting faced by Victorian councils. An audit of this issue would help Local Government Victoria discover the financial costs associated with this issue and better advocate for the financial interests of the sector.

FINDING 47: There is a lack of Victorian Government coordination and oversight on the nature and extent of cost shifting that has been mandated by the State Government on local councils.

RECOMMENDATION 44: That Local Government Victoria work with local councils and government departments and agencies to conduct a review to determine the nature and extent of cost shifting faced by Victorian councils.

¹⁵¹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 12.

¹⁵² Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 13.

¹⁵³ Local Government New South Wales, *Cost Shifting Report – How State Costs Eat Council Rates*, 2023.

Chapter 7

Core services

7.1 What are the ‘core’ services of councils?

7.1.1 Overview

Every council has its own unique bag of services

Andrew Cooney, Greater Bendigo City Council, *Transcript of evidence*, 21 August 2024, p. 28.

Councils deliver a wide range of services to their communities – ‘emergency management, economic development, maternal and child health, kindergarten, food safety and road management are but a few’.¹

However, in the context of increasing financial pressures, it is clear that councils ‘cannot continue to do more of everything’.²

Several councils told the Committee that they are continually looking at ways to improve the efficiency of service delivery and innovate to ensure that they remain financially sustainable.³ However, in some cases, councils, are, or will be, facing the difficult financial reality of needing to cease delivering some existing services in their communities. Macedon Ranges Shire Council told the Committee that:

The ongoing tension between community expectations, the capacity to deliver services, gaps left by market, and responsibility shifting between levels of government, feeds directly into the community’s dissatisfaction with Local Government service provision. As the most accessible level of government to our residents and businesses, local governments hear the feedback from the community most loudly and directly.⁴

What services councils must deliver, or ‘core’ services, is not defined by legislation. Instead, elected officials are tasked with reflecting and acting upon the specific needs of their communities. Whilst this affords councils a great deal of flexibility to be responsive to their community’s needs, it also can create challenges. The Committee

1 Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 14.

2 Bradley Thomas, Chief Executive Officer, Hepburn Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 66.

3 For example, see: Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 15.

4 Macedon Ranges Shire Council, *Submission 61*, p. 1.

heard that many councils find it difficult to constrain community expectation in a manner that aligns with their limited resources.⁵

This Chapter explores:

- the legislative framework regarding council services, including the *Local Government Acts*
- the Local Government Reporting Framework
- the role of elected officials in determining what services are delivered
- the role of community expectation in determining what services are delivered
- whether there should be a more defined list of ‘core’ services councils must deliver; and
- opportunities for greater use of shared systems and services.

7.1.2 The legislation in relation to council services

The *Local Government Act 2020* (the 2020 Act) repealed and replaced aspects of the *Local Government Act 1989* (the 1989 Act).

The 1989 Act and associated regulations ‘prescribed many details about how councils could, among other things:

- make decisions
- conduct public consultation processes
- provide notices of meetings
- run meetings; and
- make information available to the public’.⁶

The 2020 Act acknowledged that ‘this level of prescription is unnecessary for modern councils’⁷ and moved from a ‘prescription to a principles-based approach’.⁸ The 2020 Act seeks to enable councils to govern based on five principles:

- community engagement
- strategic planning
- financial management

5 For example, see: Stuart King, Mayor, Swan Hill Rural City Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 10.

6 Victorian Department of Government Services, *A principles-based Act*, <<https://www.localgovernment.vic.gov.au/council-governance/local-government-act-2020/principles-of-the-local-government-act-2020>> accessed 2 November 2024.

7 Victorian Department of Government Services, *A principles-based Act*.

8 Victorian Department of Government Services, *A principles-based Act*.

- public transparency; and
- service performance.⁹

The Committee heard that the 2020 Act ‘was a significant change’.¹⁰ It placed far greater emphasis on the ‘things that councils need to do to make sure that they understand what their communities’ priorities are’,¹¹ rather than on what services they must provide.

The 2020 Act determines that the role of councils ‘is to provide good governance in its municipal district for the benefit and wellbeing of the municipal community’.¹² To fulfill its role of providing good governance, councils are to ‘perform any duties or functions or exercise any powers’¹³ it determines is ‘necessary to enable the council to perform its role’.¹⁴ This is subject to any limitations or restrictions imposed under the 2020 Act or other pieces of legislation.¹⁵

The role of councils, or the ‘core’ services that councils must deliver, is not specified further by the 2020 Act. This affords councils significant flexibility to deliver the services it considers ‘best align with their community’s aspirations’.¹⁶

The Committee heard that whilst this level of flexibility is welcomed by the sector, it also creates challenges. This is because there is ‘no size to which councils can ‘shrink’ to ensure affordability and sustainability as a ‘minimum viable product’ that is formally prescribed’¹⁷ under the 2020 Act.

The Committee also heard that some in the community consider that ‘successive governments have failed to implement a clear scope in the *Local Government Act* of what the essential functions of local council are, what performance standards should be met, what optional services are and what is completely up to council to choose’.¹⁸ This can contribute to the challenges councils face, as there may be mixed public understanding of what councils are there to do – and not do, for their communities.

⁹ Victorian Department of Government Services, *A principles-based Act*.

¹⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 13.

¹¹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 13.

¹² *Local Government Act 2020* (Vic), s. 8(1).

¹³ *Local Government Act 2020* (Vic), s. 8(3)(a).

¹⁴ *Local Government Act 2020* (Vic), s. 8(3)(a).

¹⁵ FinPro, *Submission 11.c*, p. 33.

¹⁶ Macedon Ranges Shire Council, *Submission 61*, p. 11.

¹⁷ Macedon Ranges Shire Council, *Submission 61*, p. 11.

¹⁸ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

Financial and service planning

Whilst the 2020 Act does not prescribe what ‘core’ services a council must deliver, it is prescriptive in outlining the strategic planning a council must conduct in determining what services it will provide. The 2020 Act requires councils to develop:

- A Community Vision – that describes the municipal community’s aspirations for the future of the municipality.¹⁹
- A Council Plan – that outlines the strategic direction of the council, strategic objectives for achieving the strategic direction and strategic indicators to monitor achievement of these objectives. The Council Plan must be for a period of at least the next 4 financial years.²⁰
- A 10-year Financial Plan – that must define, amongst other things, the financial resources required to give effect to the Council Plan and other strategic plans of the council.²¹
- A 10-year Asset Plan – that includes information about maintenance, renewal, acquisition, expansion, upgrade, disposal and decommissioning in relation to each class of infrastructure asset under the control of the Council.²²
- A Revenue and Rating Plan.²³
- The 2020 Act requires the above plans to be prepared in accordance with the following strategic planning principles:
- An integrated approach to planning, monitoring and performing reporting is to be adopted.
- Strategic planning must address the Community Vision
- Strategic planning must take into account the resources needed for effective implementation.
- Strategic planning must identify and address the risks to effective implementation.
- Strategic planning must provide for ongoing monitoring of progress and regular reviews to identify and address changing circumstances.²⁴

The above requirements of the 2020 Act aim to ensure that ‘communities are actually being asked or councils are being required to engage through consultation mechanisms with their communities to determine what their priorities are’.²⁵ It aims to

¹⁹ *Local Government Act 2020* (Vic), s. 88.

²⁰ *Local Government Act 2020* (Vic), s. 90.

²¹ *Local Government Act 2020* (Vic), s. 91.

²² *Local Government Act 2020* (Vic), s. 92.

²³ *Local Government Act 2020* (Vic), s. 93.

²⁴ *Local Government Act 2020* (Vic), s. 89(2)(a)–(e).

²⁵ Kathryn Arndt, Chief Executive Officer, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 28

equip councils with ‘robust processes for service planning and review’²⁶ and encourage heavy investment in ‘deliberative engagement and community consultation to ensure the voices of a community are represented’.²⁷

The 2020 Act also requires councils to have a community engagement policy and a public transparency policy, as guided by community engagement and public transparency principles.²⁸

Other legislated responsibilities

Whilst the *Local Government Act* does not define the ‘core’ services of councils, there ‘are a wide range of responsibilities or obligations outlined in over 120 pieces of legislation’.²⁹

The Committee heard that ‘there is not a central register’³⁰ of all legislated responsibilities which ‘makes it very difficult for councils when they are setting priorities through their budget process and throughout the year’.³¹ The Municipal Association of Victoria stated, ‘There is definitely room to document that better and have better oversight of it.’³²

7.1.3 The Local Government Reporting Framework

The Local Government Reporting Framework is a ‘mandatory system of performance reporting for all Victorian Councils’.³³ The framework ‘is the only standardised way on which Victorian councils report on their performance’.³⁴ It is made up of 58 measures from a range of service areas,³⁵ including:

- animal management (including cost per animal, prosecutions and reclaimed animals)
- aquatic facilities (including costs per visit, health inspections, safety incidents and visits to facilities)
- food safety (including cost per premises, food safety assessments and non-compliance notifications)

²⁶ South Gippsland Shire Council, *Submission 33*, p. 11.

²⁷ Baw Baw Shire Council, *Submission 71*, p. 17.

²⁸ *Local Government Act 2020* (Vic), s. 55–58.

²⁹ FinPro, *Submission 11.c*, p. 33.

³⁰ Emlyn Breese, Coordinator Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 21.

³¹ Emlyn Breese, Coordinator Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 21.

³² Emlyn Breese, Coordinator Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 21.

³³ Victorian Department of Government Services, *Performance Reporting*, <<https://www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting>> accessed 2 November 2024.

³⁴ Rural City of Wangaratta, *Submission 46*, p. 5.

³⁵ Victorian Department of Government Services, *Performance Reporting*, <<https://www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting>> accessed 2 November 2024.

- governance (including community satisfaction, consultation and engagement, cost per councillor, council decisions and councillor attendance)
- libraries (including borrowing, cost per visit, standard of collection and users)
- maternal and child health (including first visits, infant enrolments and participation)
- roads (including community satisfaction, reconstruction cost, road condition and road requests)
- statutory planning (including cost per application, time taken, VCAT decisions and Vic smart and regular applications); and
- waste collection (including bin collection requests, garbage collection cost, missed bins, recycling collection cost and waste diversion).³⁶

The 58 measures 'are reviewed every three years'³⁷ in consultation with the local government sector 'to identify what the key performance reporting should look like across the sector'.³⁸

The Committee heard that the Local Government Reporting Framework in some respects 'is a set of core services for the Victorian local government sector'.³⁹

Although, it was noted that the Local Government Reporting Framework 'would not be considered a complete list of core services, but is a useful tool to assess how councils are meeting service objectives for some of the services'.⁴⁰

7.1.4 The role of Councillors

The Committee heard that elected officials, or Councillors, play a significant role in defining the set of services a council will deliver.

Local Government Victoria told the Committee that what services a council delivers 'really does come down to the responsibilities of elected officials to respond to the community'.⁴¹ The 2020 Act supports this characterisation, and provides the:

Authorising environment for council to make independent decisions in collaboration with its community regarding the types of services to be delivered, and the quality, provision, and cost standards that will apply.⁴²

³⁶ Victorian Auditor General's Office, *Local Government Performance Reporting Framework Dashboard*, <<https://www.audit.vic.gov.au/dashboards/reporting-local-government-performance>> accessed 2 November 2024.

³⁷ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 6.

³⁸ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 6.

³⁹ Rural City of Wangaratta, *Submission 46*, p. 5.

⁴⁰ Rural City of Wangaratta, *Submission 46*, p. 5.

⁴¹ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 5.

⁴² Mitchell Shire Council, *Submission 81*, p. 23.

The Committee heard that the 2020 Act ‘reinforced the principle of devolution of authority, accountability and decision making to local government’⁴³ by allowing elected officials ‘to drive what those important services are’⁴⁴ in their community.

Despite the significance of the responsibility entrusted to elected officials, the remuneration they receive is low. Councillor salaries are determined by the Victorian Independent Remuneration Tribunal. As of 1 July 2024, the base allowance per annum for councillors are:

- Category 1 – \$27,291
- Category 2 – \$34,028
- Category 3 – \$40,769
- Category 4 – \$61,153.⁴⁵

Category 1 and 2 is largely made up of rural and regional councils (for example Corangamite Shire Council, Buloke Shire Council and Wodonga City Council). Category 3 is largely made up of larger rural and regional councils, interface and peri-urban councils (for example, Ballarat City Council, Melton City Council and Stonnington City Council). Category 4 is the Melbourne City Council.⁴⁶

Low Councillor remuneration may limit the range of skilled people from running for council, including those from lower socio-economic backgrounds who may be unable to balance demanding councillor responsibilities with additional work responsibilities necessitated by the high cost of living.

Given the emphasis the 2020 Act places upon the role of Councillors in facilitating good governance at the local government level, it is critical that remuneration does not prevent the best candidates from stepping forward to represent their communities.

RECOMMENDATION 45: That the Victorian Independent Remuneration Tribunal review the base allowances of Councillors to ensure it is not barring good candidates from stepping forward to represent their communities.

In defining what services councils will provide, the Committee heard that the ‘great balancing job for elected officials to juggle’⁴⁷ is the expectations of their community.

⁴³ Mitchell Shire Council, *Submission 81*, p. 23.

⁴⁴ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 42.

⁴⁵ Victorian Government, *Allowances for Mayors, Deputy Mayors and Councillors*, <<https://www.vic.gov.au/allowances-mayors-deputy-mayors-and-councillors>> accessed 13 November 2024.

⁴⁶ Victorian Government, *Allowances for Mayors, Deputy Mayors and Councillors*, <<https://www.vic.gov.au/allowances-mayors-deputy-mayors-and-councillors>> accessed 13 November 2024.

⁴⁷ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 12.

7.1.5 Community expectations

The Committee heard that community expectations also play a significant role in defining the set of services a council will deliver.

The Municipal Association of Victoria (MAV) told the Committee that the:

Direct connection between councils and the communities they serve means that they are best placed to understand, anticipate and respond to the needs of those communities.⁴⁸

The Victorian Local Governance Association stated that ‘it is for communities to decide what services local governments should deliver’.⁴⁹ This was echoed by councils, who emphasised that communities should be at the ‘absolute centre’⁵⁰ of decision making.

However, the Committee heard that acting upon community expectation is no easy task. Hepburn Shire Council emphasised that if you ‘put a hundred different people into a room’⁵¹ and ask what core services they wish to see, they will give a hundred different answers.⁵²

Community expectation is also not static. Rural Councils Victoria told the Committee that ‘as communities change and grow, so do their expectations for services and facilities’.⁵³ The Committee heard that ‘in recent times, there has been a noticeable upswing in community expectations’⁵⁴ that extend ‘beyond traditional services and infrastructure’.⁵⁵ A recent study by the Australian National University found that communities expect councils to deliver more than just the basic service of roads, rates and rubbish.⁵⁶ Some in the community consider that councils should ‘actively shape local identity and culture’⁵⁷ or be involved in promoting social equity and implementing climate change reforms.⁵⁸

M9, a group of the nine inner Melbourne councils, acknowledge that it is impossible to meet every need in a community or give ‘provide everything for everyone’.⁵⁹ However,

⁴⁸ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 14.

⁴⁹ Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 32.

⁵⁰ Sarah Johnston, General Manager Business Excellence, East Gippsland Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 16.

⁵¹ Bradley Thomas, Chief Executive Officer, Hepburn Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 66.

⁵² Bradley Thomas, Chief Executive Officer, Hepburn Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 66.

⁵³ Rural Councils Victoria, *Submission 57*, p. 6.

⁵⁴ Swan Hill Rural City Council, *Submission 58*, p. 12.

⁵⁵ Swan Hill Rural City Council, *Submission 58*, p. 12.

⁵⁶ Yarra City Council, *Submission 67*, p. 4.

⁵⁷ Yarra City Council, *Submission 67*, p. 4.

⁵⁸ Swan Hill Rural City Council, *Submission 58*, p. 12.

⁵⁹ Celia Haddock, Chief Executive Officer Maribyrnong City Council, M9, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 51.

this is a tension councils need to manage in the context of its limited resources and a principles-based Act which does not define its role.

The Committee heard that it is significant challenge for councils to curtail community expectation in a way that aligns with the resources they have. In an environment ‘that is becoming increasingly constrained by costs’,⁶⁰ ‘councils are, and will be, forced to choose between which services they can offer, and which are no longer affordable’.⁶¹ The Committee heard that most communities ‘like continuing to receive the services that they have’⁶² and generally do not like to see service reductions. It is likely many councils will find themselves unable to meet growing community expectation due to financial challenges and instability.

Hume City Council told the Committee that the community doesn’t, and shouldn’t have to, care about which level of government is paying for or managing a service – they just want the service.⁶³ Councils often get ‘sucked into the vacuum’⁶⁴ if cuts are made to services which other levels of government have previously delivered or have been supported by grant funding. Councils emphasised the immense pressure they feel to continue service delivery in such circumstances. Indigo Shire Council told the Committee ‘The community need it, someone’s got to do it, so we just do it.’⁶⁵

Market failure and councils as a provider of last resort

The Committee often heard councils described as ‘a provider of last resort’.⁶⁶

Councils often provide services in circumstances where there is market failure in a community, and it is not commercially viable for private providers to operate services. This is more commonly the case in rural and regional areas, where there is a lack of privately delivered services.

Councils noted that if you are denied basic services in your community, ‘you may as well live on the moon’.⁶⁷ As such, the ‘maintenance of liveability in these more remote communities is one of equity and should be regarded as a key service obligation’.⁶⁸

⁶⁰ David Rae, Chief Executive Officer, Corangamite Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 22.

⁶¹ Matthew McPherson, Director Corporate, Campaspe Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 17.

⁶² Cathy Henderson, Chief Executive Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 66.

⁶³ Sheena Frost, Chief Executive Officer, Hume City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 54.

⁶⁴ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 65.

⁶⁵ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 65.

⁶⁶ For example, see: Ed Small, Director Corporate and Governance Services, Moyne Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of Evidence*, p. 51.

⁶⁷ Tim Tamlin, Interim Chief Executive Officer, Strathbogie Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 45.

⁶⁸ Moyne Shire Council, *Submission 39*, p. 3.

The Committee heard that this aligns with community expectation – who expect council to provide costly services if there are no, or few, alternative providers.⁶⁹

The Committee heard that whilst it may compound financial challenges, councils ‘will pick things up where we think it is absolutely critical for our communities to have it’.⁷⁰ Wyndham Shire Council emphasised that a decision to provide such services cannot be thought of as a simple decision, stating:

There is that pressure between rubbing your hands together and saying, ‘We’re out’ and really understanding whether the community will suffer if council steps away from some of that service delivery.

I think from council’s perspective we feel immense pressure to make sure that our community are safe and are getting the services they need. I think having a strong standpoint against delivering some of those really core functions is going to be difficult for council to walk away from.⁷¹

The Committee heard that there can be ‘perverse outcomes’⁷² for rural and regional communities if councils do not ‘step into that breach’. In light of this, councils feel that they ‘cannot say no’⁷³ and instead must deliver the services their community needs but the market won’t deliver.

7.1.6 Should there be a defined list of services?

Defining the ‘core’ services of councils is not a straightforward exercise. As demonstrated above, councils must balance a range of competing considerations in an attempt to best meet the needs of their communities.

The Committee asked stakeholders whether a more defined list of ‘core’ services a council must provide would assist councils to fulfil their role of providing good governance to their communities. The response was mixed.

The Committee heard that attempting to define ‘core’ services was not ‘useful’.⁷⁴ This is because ‘determining and defining the core services of local government is a subjective exercise’.⁷⁵ Councils emphasised that it is important they can be ‘responsive to their

⁶⁹ Moyne Shire Council, *Submission 39*, p. 3.

⁷⁰ Greg Box, Chief Executive Officer, Bass Coast Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 7.

⁷¹ Stephen Wall, Chief Executive Officer, Wyndham City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 7.

⁷² Bernie O’Sullivan, Chief Executive Officer, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 66.

⁷³ Brett Luxford, Chief Executive Officer, Mitchell Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 48.

⁷⁴ Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 29.

⁷⁵ Baw Baw Shire Council, *Submission 71*, p. 17.

local communities and can meet the varying needs and changes that happen their local level',⁷⁶ noting 'A community in West Wimmera has very different needs to a community in Casey.'⁷⁷

The Committee heard that any attempt to define core services may prevent councils from delivering what their specific communities need. Local Government Victoria considered there was a danger in saying "you must have these services", because they might not be relevant'⁷⁸ to all communities. The Committee heard that communities 'would not necessarily want their council to invest in some areas at the expense of others'⁷⁹ if a common definition of 'core' services enforced upon councils and did not align with their community's needs.

The Committee also heard that any attempts to define core services would be diverting from 'the trajectory'⁸⁰ set by the 2020 *Local Government Act*, which was a principles-based approach to enshrining the decision-making autonomy of councils as an independent tier of government.

Some councils noted that a more defined understanding of 'core' services may assist them to resist cost shifting. Councils emphasised that cost shifting is a 'very difficult one to face'⁸¹ given the 'power dynamic'⁸² between the levels of government. Typically, it is councils who are the subject of severe community backlash should they attempt to push back against cost shifting and seek to discontinue delivering services it considers best sits with other levels of government.⁸³ Rural Councils Victoria gave the example of school crossing supervision services, which it considers is a service 'that really probably should not be local government's responsibility'.⁸⁴ A defined list of 'core' services may assist councils to 'say no'⁸⁵ to cost shifting by clarifying what service delivery obligations sit with what level of government. Cost shifting is discussed further in Chapter 6.

⁷⁶ Kat Panjari, Director, Strategic Foresight and Partnerships, Municipal Association of Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 21.

⁷⁷ Bradley Thomas, President, Local Government Finance Professionals, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 42.

⁷⁸ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 13.

⁷⁹ Rhys Thomas, Local Government Programs and Policy, Victorian Local Governance Association, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 29.

⁸⁰ Mike Gooley, Executive Director, Local Government Victoria, public hearing, Melbourne, 8 October 2024, *Transcript of evidence*, p. 8.

⁸¹ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 53.

⁸² John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 7.

⁸³ Kirsten Alexander, Chief Executive Officer, Mansfield Shire Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 63.

⁸⁴ Cr Mary-Ann Brown, Chair, Rural Councils Victoria, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 54.

⁸⁵ Matt Hyde, Chief Executive Officer, Wodonga City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 53.

Other councils considered that a definition of ‘core’ services would assist councils to more effectively manage the expectations of their communities. Yarriambiack Shire Council told the Committee:

The community, especially in rural communities, believes councils should deliver everything. Especially if there is some kind of market failure, they expect council to jump in and address those service gaps.⁸⁶

Small and large shire councils told the Committee that it is becoming increasingly financially unsustainable to respond to market failures. However, they also emphasised that should they say no, and withdraw from such service delivery, their communities will suffer. It is unclear whether defining ‘core’ services will shift the burden of addressing market failure in rural and regional areas onto another tier of government or result in this need being neglected by all levels of government.

Council watch, a rate-payer advocacy group, considered that a defined understanding of ‘core’ services would prevent councils attempting to be ‘everything to everyone’.⁸⁷

The Committee did not receive sufficient evidence to recommend that ‘core’ services be defined.

7.2 Shared systems and services

Councils ‘share many common responsibilities and carry out similar functions and activities’.⁸⁸ As such, there is an opportunity for councils to share more knowledge, systems and services.

The Committee heard that in the past there has been ‘various attempts at shared services with councils, and some of those have had more success than others’.⁸⁹

Brimbank City Council told the Committee that ‘It has been tried, but it has not worked’.⁹⁰

Despite this, the Committee heard that many in the sector still consider that ‘there are huge opportunities’⁹¹ for efficiencies and a greater sharing of systems and services.

Brimbank City Council stated:

⁸⁶ Tammy Smith, Chief Executive Officer, Yarriambiack Shire Council, public hearing, Camperdown, 7 August 2024, *Transcript of evidence*, p. 44.

⁸⁷ Dean Hurlston, President, Council Watch, public hearing, Melbourne, 26 June 2024, *Transcript of evidence*, p. 61.

⁸⁸ Victorian Government, *Local Government Shared Services*, <<https://www.vic.gov.au/local-government-shared-services>> accessed 4 November 2024.

⁸⁹ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 31.

⁹⁰ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 9.

⁹¹ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 9.

I think if you look at 79 councils, do you really need 79 CIOs? Do you need 79 directors of corporate services? I am sure I am going to get some hate mail now for saying that, but I think there is a huge opportunity.⁹²

This sentiment was echoed by other councils. Speaking about council policies, Indigo Shire Council questioned:

Why are we all going to consultants to write our own or spending our own time to write our own? One person could do it and we could all share it

Let us have the same transparency policies. Let us have the same privacy policies. Why aren't they all just the same policies? We are not that different from each other.⁹³

Speaking about procuring legal services, Macedon Ranges Shire Council stated:

79 councils are often getting advice from legal consultants on the same issues because they are coming and hitting us all at once, so how can we make sure that we are doing more to share that advice and actually asking maybe a couple of times around the nuance of the different local government areas, and not getting that advice 79 times and paying for it 79 times across the various shires.⁹⁴

Previous reviews and reports have considered whether the local government sector would benefit from increased shared systems and services.⁹⁵ For example, the November 2023 Deloitte report *Rural and Regional Council IT Strategic Framework for Shared Services* made several recommendations relating to increased shared systems and services, including the development of a 10-year roadmap which would map out a phased approach to implementing common IT shared services across rural and regional areas.⁹⁶ The Committee heard that it is 'not clear how these recommendations are being progressed by Local Government Victoria'.⁹⁷

The Committee heard that despite the complexities involved, many councils are attempting to get shared systems and services off the ground.

The City of Greater Bendigo told the Committee that 'there have been some attempts at trying to get councils onto similar financial systems and similar computer systems'.⁹⁸ It was noted that whilst the platform or system might be the same, each council's experience and capability is different which impacts how well the system can be

⁹² Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 9.

⁹³ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 64.

⁹⁴ Adele Drago-Stevens, Director Corporate Services, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 63.

⁹⁵ For example, see: Victorian Auditor General's Office, *Shared Services in Local Government*, 2014, <<https://www.audit.vic.gov.au/report/shared-services-local-government>> accessed 4 November 2024.

⁹⁶ Deloitte, *Rural and Regional Council IT Strategic Framework for Shared Services*, November 2023, pp. 8–9.

⁹⁷ Wangaratta Rural City Council, *Submission 46*, p. 10.

⁹⁸ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 31.

integrated into multiple councils. Hobsons Bay City Council stated ‘Different needs and different preferences for technological solutions seem to be the obstacle there.’⁹⁹

The Committee also heard that efforts to implement shared systems can require significant investment from councils. Financial sustainability concerns make investment ‘even more difficult’¹⁰⁰ as councils feel increased pressure to spend ‘every dollar in a way that is really meaningful and impactful and outward facing in the community’.¹⁰¹ Macedon Ranges Shire Council told the Committee:

Doing internal work around restructuring and looking at shared services ... is not the most attractive thing to the community, to talk about the fact that we are going to be spending significant amounts of money to improve our technology infrastructure, for example. It is like fixing the wiring in a rundown house if you do not see the benefit. So that is a particular challenge, and I think it is also why historically there has been underinvestment in things like technology improvements, organisational design, operating models and so forth. They have been underinvested in because they are the least visible in terms of the impact in the community.¹⁰²

Even in circumstances where investment in shared services is supported by grant funding, the Committee heard that the ‘sunk costs ... far exceed what has been available through those programs’.¹⁰³

The Committee also heard that shared systems are made more difficult by licencing and governance arrangement ‘hurdles’¹⁰⁴ – which compounds the complexity involved in getting these initiatives off the ground.

The above barriers in implementing shared systems can also be present in implementing shared services. Mornington Shire Council, told the Committee that:

The complexity sometimes of shared services is around the different needs and requirements of different local authorities. Even with something like, for example, an animal shelter and a shared service associated with that, there are different policies around treating feral cats in one local authority to another, so you have to do a harmonisation exercise.¹⁰⁵

99 Andrew McLeod, Director Corporate Services, Hobsons Bay City Council, public hearing, Cobblebank, 7 October 2024, *Transcript of evidence*, p. 18.

100 Adele Drago-Stevens, Director Corporate Services, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 63.

101 Adele Drago-Stevens, Director Corporate Services, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 63.

102 Adele Drago-Stevens, Director Corporate Services, Macedon Ranges Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 63.

103 Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 45.

104 Livia Bonazzi, Chief Executive Office, Murrindindi Shire Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 18.

105 John Baker, Chief Executive Officer, Mornington Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 9.

The Committee heard that despite these challenges, some councils are experiencing success in implementing shared systems. Moonee Valley City Council stated that:

Recently, in the last 18 months, we successfully deployed an Oracle system for our HR, IT and procurement systems. Many other councils have approached us asking how they can learn from us and also how they can borrow resources from us. So those conversations are happening.¹⁰⁶

The MAV also provided the Committee with several examples of shared services being implemented well.¹⁰⁷ For example:

In a groundbreaking initiative, Benalla, Mansfield, Murrindindi, and Strathbogie Shire Councils embarked on a digital transformation project aimed at improving operational efficiencies and service delivery through a collaborative model. By leveraging shared platforms and architecture, these four councils capitalize on their collective strengths, reducing administrative overheads and fostering a cooperative environment that promotes efficiencies and excellence.

This \$4.1 million project is supported by grants from LGV's Rural Council Transformation Program and the Department of Treasury and Finance Business Acceleration Fund as well as funding contributions from the councils.¹⁰⁸

Consistent systems have many benefits, including enabling councils to share staff. Shared staffing arrangements can assist councils to manage periods of staff leave or assist councils who are unable to recruit staff with the necessary expertise.¹⁰⁹ This is particularly helpful in rural and regional areas. The City of Greater Bendigo told the Committee that:

It is really difficult to get a cybersecurity person probably to move into a rural area and potentially work a fraction of a full-time job, so we are bringing that in under our shared services banner to trial and see if our centralised support can help councils locally ... So I absolutely think there is a role for larger councils to provide a supporting role for smaller councils – without stepping in and trying to take over.¹¹⁰

we have taken a service-led approach to ... functions like legal services, where a council might need some part-time legal expertise and legal support, their ability to attract somebody to a small rural council for a day or two a week is pretty unlikely. We could potentially attract somebody to Bendigo, though, a large municipality, and then spread that work across.¹¹¹

¹⁰⁶ Helen Sui, Chief Executive Officer, Moonee Valley City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 26.

¹⁰⁷ Municipal Association of Victoria, *Submission 105*, pp. 63–67.

¹⁰⁸ Municipal Association of Victoria, *Submission 105*, p. 65.

¹⁰⁹ Hindmarsh Shire Council, *Submission 38*, p. 5.

¹¹⁰ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 31.

¹¹¹ Andrew Cooney, Chief Executive Officer, Greater Bendigo City Council, public hearing, Bendigo, 21 August 2024, *Transcript of evidence*, p. 31.

The Committee heard that councils are also experiencing some success with shared procurement services. Shared procurement results in councils having ‘higher buying power’¹¹² which results in greater costs savings. Merri-bek City Council stated that:

Every procurement activity that council undertakes, one of the questions is ‘Could it be a collaborative procurement?’ – so looking at gaining those efficiencies.¹¹³

Despite some success being experienced by the sector, the Committee heard that shared systems and services are still hard to get off the ground. Several councils told the Committee that they would welcome greater guidance to assist them to successfully implement shared systems and services, particularly from the Victorian Government.¹¹⁴

Regarding induction of new Councillors, Trevor Ierino, CEO of Indigo Shire Council said:

Seriously, 90 per cent of an induction program could be one document that we all share if someone in the state could spend five or 10 grand on putting together a document, and then we could just add bits to the end like ‘insert name of councillors’, ‘insert name of staff here’. But really 90 per cent of what we are inducting our councillors on, Bernie would be doing the same stuff, Brad would be doing the same stuff, 75 other councils would be doing the same stuff about what the Local Government Act is, what your obligations as a councillor are, all that stuff – training. Why are we all going to consultants to write our own or spending our own time to write our own? One person could do it and we could all share it. We do do a lot of that, but it would be great if we actually had a structured approach. Code of conduct – I think we are looking now to do that as a state, which is great. But that could easily have been done years and years ago, and let us all follow the same one. Let us have the same transparency policies. Let us have the same privacy policies. Why aren’t they all just the same policies? We are not that different from each other.¹¹⁵

RECOMMENDATION 46: That the Victorian Government ensure requirements around councillor training and professional development are adequately funded.

RECOMMENDATION 47: That the Victorian Government support local government in creating shared service models, including I.T. and procurement.

¹¹² Jemma Wightman, Chief Financial Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 67.

¹¹³ Jemma Wightman, Chief Financial Officer, Merri-bek City Council, public hearing, Broadmeadows, 19 September 2024, *Transcript of evidence*, p. 67.

¹¹⁴ For example, see: Sarah Brindley, Director Corporate and Leisure, Wangaratta Rural City Council, public hearing, Traralgon, 4 September 2024, *Transcript of evidence*, p. 46; and Carol Jeffs, Chief Executive Officer, Cardinia Shire Council, public hearing, Frankston, 25 September 2024, *Transcript of evidence*, p. 34.

¹¹⁵ Trevor Ierino, Chief Executive Officer, Indigo Shire Council, public hearing, Bendigo, 21 August 2024, *Transcript of Evidence*, p. 64.

The Committee also heard that the MAV may be best placed to assist with ‘connecting people’¹¹⁶ and facilitating a greater sharing of policies, systems and services at the local government level. The Committee notes that the *Municipal Association Act 1907* has not ‘undergone a comprehensive review since its enactment in 1907’¹¹⁷ and therefore does not ‘reflect the current activities carried out by the Municipal Association of Victoria’.¹¹⁸ The Municipal Association of Victoria advocates for reform to the *Municipal Association Act 1907*, including a clarification of its role.¹¹⁹ The Municipal Association of Victoria proposed that any new legislation define its role to include ‘facilitating collaborating and shared services between councils’.¹²⁰

RECOMMENDATION 48: That the Victorian Government review the *Municipal Association Act 1907* to ensure it remains fit for purpose and reflects the full scope of the Municipal Association of Victoria’s contemporary responsibilities.

**Adopted by the Legislative Council Economy and Infrastructure Committee
Parliament of Victoria, East Melbourne
15 November 2024**

¹¹⁶ Mark Stoermer, Director Corporate Services, Brimbank City Council, public hearing, 19 September 2024, Broadmeadows, *Transcript of evidence*, p. 7.

¹¹⁷ Municipal Association of Victoria, *Municipal Association Act Review Consultation Paper*, May 2017, p. 2.

¹¹⁸ Municipal Association of Victoria, *Municipal Association Act Review Consultation Paper*, May 2017, p. 2.

¹¹⁹ Municipal Association of Victoria, *Municipal Association Act Review Consultation Paper*, May 2017, p. 2.

¹²⁰ Municipal Association of Victoria, *Municipal Association Act Review Consultation Paper*, May 2017, p. 2.

Appendix A

About the Inquiry

A.1 Submissions

1	Confidential	26	Mr Frank Yap
2	Mr Graham Jolly	27	Robin Weatherald
3	Name withheld	28	Mr George Soitaridis
4	Mr Ian George	29	Glen Eira City Council
5	Dave Dunkley	30	Warrnambool City Council
6	Name withheld	31	Ian Fraser
7	Name withheld	32	Hobsons Bay City Council
8	Mr Joshua Shrive	33	South Gippsland Shire Council
9	Mr Tim Symons	34	Victorian Greenhouse Alliances
10	Mrs Ingrid Pezzoni	35	Ms Bienne Tam
11	Local Government Finance Professionals (FinPro)	36	Australian Christian Lobby
11a	Local Government Finance Professionals (FinPro)	37	Name withheld
11b	Local Government Finance Professionals (FinPro)	38	Hindmarsh Shire Council
11c	Local Government Finance Professionals (FinPro)	39	Moyne Shire Council
12	Indigo Shire Council	40	Moonee Valley City Council
13	Name withheld	41	City of Ballarat
14	A new Approach	42	Mr Michael Barrett
15	Name withheld	43	Dr Dora Pearce
16	Bass Coast Shire Council	44	YIMBY Melbourne
17	Dr Timothy Mapperson	45	Yarriambiack Shire Council
18	Mr David Simpson	46	Rural City of Wangaratta
19	Name withheld	47	Knox City Council
20	Name withheld	48	Brimbank City Council
21	Name withheld	49	Wyndham City Council
22	Mr Christopher Alley	50	Mrs Dorothy Long
23	Animal Care Australia	51	Name withheld
24	Mr Andrew Coventry	52	Hume City Council
25	Cathy Mitchell	53	East Gippsland Shire Council
		54	Central Goldfields Shire Council
		55	LG Consulting Group

56	Ms Carol Gillman	86	Merri-bek City Council
57	Rural Councils Victoria	87	Australian Services Union
58	Swan Hill Rural City Council	88	Gannawarra Shire Council
59	Latrobe City Council	89	Mr Robin McLiesh
60	Cardinia Shire Council	90	Loddon Shire Council
61	Macedon Ranges Shire Council	91	Mr Matthew Pearse
62	Mr Pierre Debets	92	Greater Ballarat Alliance of Council
64	Buloke Shire Council	93	Surf Coast Shire Council
65	Hepburn Shire Council	94	City of Casey
66	Prosper Australia	95	City of Greater Bendigo
67	Yarra City Council	96	Pyreness Shire Council
68	Regional Cities Victoria	97	Mansfield Shire Council
69	Strathbogie Shire Council	98	Victorian Local Governance Association
70	M9	99	Australian Research Centre in Sex, Health and Society
71	Baw Baw Shire Council	100	Name withheld
72	Mildura Rural City Council	101	City of Ballarat Council
73	City of Greater Geelong	102	Corangamite Shire Council
74	Campaspe Shire Council	103	Murrindindi Shire Council
75	Yarra Ranges Council	104	Victorian Electoral Commission
76	City of Stonnington	105	Municipal Association of Victoria
77	Loddon Campaspe Group of Councils	106	Victorian Farmers Federation
78	Greater Shepparton City Council	107	Victorian Parliamentary Budget Office
79	Moir Shire Council	110	One Gippsland
80	Streets Alive Yarra	111	Phillip Talihmanidis
81	Mitchell Shire Council	112	Wallaloo and Gre Gre District Alliance
82	Mornington Peninsula Shire Council	113	John Buxton
83	Frankston City Council	114	John Day
84	Wodonga City Council		
85	Indigo Community Voice Inc.		

A.2 Public hearings

26 June 2024

Davui Room, G1 & G2, East Melbourne, VIC

Witness	Position and Organisation
Mike Gooley	Executive Director of Local Government Victoria, Department of Government Services
Colin Morrison	Executive Officer of Victorian Local Government Grants Commission, Department of Government Services
Kat Panjari	Director of Strategic Foresight and Partnerships, Municipal Association of Victoria
Emlyn Breese	Coordinator of Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria
Kathryn Arndt	Chief Executive Officer, Victorian Local Governance Association
Rhys Thomas	Head of Local Government Programs and Policy, Victorian Local Governance Association
Bradley Thomas	President, Local Government Finance Professionals (FinPro)
Nathan Morsillo	Executive Member and Manager of Financial Strategy at City of Greater Bendigo, Local Government Finance Professionals (FinPro)
Mary-Ann Brown	Chair, Rural Councils Victoria
Dean Hurlston	President, Council Watch

21 August 2024

All Seasons Hotel Bendigo, Lansell 1, Bendigo, VIC

Witness	Position and Organisation
Mr Daniel McLoughlan	Acting Chief Executive Officer, Buloke Shire Council
Mr Anthony Smith	Executive Support Project Officer, Buloke Shire Council
Mr Matthew McPherson	Director Corporate Services, Campaspe Shire Council
Cr Tony Marwood	Deputy Mayor, Campaspe Shire Council
Mr Andrew Cooney	Chief Executive Officer, City of Greater Bendigo
Mr Tim Tamlin	Chief Executive Officer, Strathbogie Shire Council
Mr Geoff Rollinson	Chief Executive Officer, Gannawarra Shire Council
Ms Amanda Wilson	Director Corporate Services, Gannawarra Shire Council
Mr Brett Luxford	Chief Executive Officer, Mitchell Shire Council
Cr Annette Death	Mayor, Macedon Ranges Shire Council
Mr Bernie O'Sullivan	Chief Executive Officer, Macedon Ranges Shire Council
Ms Adele Drago-Stevens	Director Corporate Services, Macedon Ranges Shire Council
Mr Bradley Thomas	Chief Executive Officer, Hepburn Shire Council
Mr Trevor Ierino	CEO, Indigo Shire Council

Witness	Position and Organisation
Cr Nathan Clark	Acting Mayor, Mitchell Shire Council
Marcia McIntyre	Wallaloo and Gre Gre District Alliance
Alexandra Matthews	Wallaloo and Gre Gre District Alliance
Nathan Morsillo	Manager Financial Strategy, City of Greater Bendigo

7 August 2024

Killara Centre, 210–212 Manifold Street, Camperdown, VIC

Witness	Position and Organisation
Stuart King	Mayor, Swan Hill Rural City Council
Scott Barber	Chief Executive Officer, Swan Hill Rural City Council
David Rae	Chief Executive Officer, Corangamite Shire Council
Kate Makin	Mayor, Corangamite Shire Council
Troy Edwards	Executive Director of Corporate Services, City of Greater Geelong
Monica Revell	Chief Executive Officer, Hindmarsh Shire Council
Ram Upadhyaya	Director Infrastructure Services, Hindmarsh Shire Council
Jim Nolan	Chief Executive Officer, Pyrenees Shire Council
Ed Small	Director Corporate and Governance Services, Moyne Shire Council
Mark Eversteyn	Chief Executive Officer, Moyne Shire Council
Andrew Mason	Chief Executive Officer, Warrnambool City Council
John Brockway	Manager Finance, Warrnambool City Council
Tammy Smith	Chief Executive Officer, Yarriambiack Shire Council
Kylie Zanker	Mayor, Yarriambiack Shire Council
Bhan Pratap	Director, Corporate Services, Swan Hill Rural City Council

4 September 2024

Century Inn Traralgon, Traralgon, VIC

Witness	Position and Organisation
Greg Box	Chief Executive Officer, Bass Coast Shire Council
David Filmlalter	Chief Financial Officer, Bass Coast Shire Council
Sarah Johnston	General Manager, Business Excellence, East Gippsland Shire Council
Allison Jones	Director, Performance & Innovation, South Gippsland Shire Council
Sarah Brindley	Director, Corporate & Leisure, Wangaratta Rural City Council
Jessica Greening	Manager, Finance, Wangaratta Rural City Council
Kristen Alexander	Chief Executive Officer, Mansfield Shire Council
James Alcaniz	Coordinator, Financial Planning & Analysis, Mansfield Shire Council

Witness	Position and Organisation
Steven Piasente	Chief Executive Officer, Latrobe City Council
John Buxton	–
Matthew Hyde	Chief Executive Officer, Wodonga City Council
Geoff Gooch	–
Trent Anderson	–
Sandra Grant	–
David Filmlater	Chief Financial Officer, Bass Coast Shire Council
Taryn Abrahamsson	Manager, Financial Strategy, South Gippsland Shire Council

19 September 2024

Broadmeadows Town Hall, Broadmeadows, VIC

Witness	Position and Organisation
Mark Stoermer	Director, Corporate Services, Brimbank City Council
Lynley Dumble	Acting Chief Executive Officer, Brimbank City Council
Helen Sui	Chief Executive Officer, Moonee Valley City Council
Damian Hogan	Chief Financial Officer, Moonee Valley City Council
Herb Ellerbock	President, Indigo Community Voice Inc.
Christine Stewart, OAM	Committee Member, Indigo Community Voice Inc.
Charles Mitchell	Committee Member, Indigo Community Voice Inc.
Cathy Henderson	Chief Executive Officer, Merri-bek City Council
Sue Vujcevic	Director, Business Transformation, Merri-bek City Council
Jemma Wightman	Chief Financial Officer, Merri-bek City Council
Livia Bonazzi	Chief Executive Officer, Murrindindi Shire Council
Michael Chesworth	Director, People & Corporate Performance, Murrindindi Shire Council
Sheena Frost	Chief Executive Officer, Hume City Council
Fadi Srour	Chief Financial Officer, Hume City Council

25 September 2024

Frankston Arts Centre, Frankston, VIC

Witness	Position and Organisation
Carol Jeffs	Chief Executive Officer, Cardinia Shire Council
Allison Southwell	Chief Financial Officer, Cardinia Shire Council
Nathan Conroy	Mayor, Frankston City Council
Phil Cantillon	Chief Executive Officer, Frankston City Council
Kim Jaensch	Chief Financial Officer, Frankston City Council

Witness	Position and Organisation
Jude Dwight	Mayor, Knox City Council
Navec Lorkin	Chief Financial Officer, Knox City Council
John Baker	Chief Executive Officer, Mornington Peninsula Shire Council
Bulent Oz	Chief Financial Officer, Mornington Peninsula Shire Council
Angela Hughes	Director, Community, Frankston City Council
Cam Arullamthan	Director Infrastructure & Operations, Frankston City Council
Shweta Babbar	Director Customers, Innovation and Arts, Frankston City Council

7 October 2024

Western BACE, Cobblebank, VIC

Witness	Position and Organisation
Derek Madden	CEO, Moorabool Shire Council, Peri Urban Councils Victoria
Stephen Wall	Chief Executive Officer, Wyndham City Council
Aaron Van Egmond	Chief Executive Officer, Hobsons Bay City Council
Andrew McLeod	Director, Corporate Services, Hobsons Bay City Council

8 October 2024

Davui Room, G1 & G2, East Melbourne, VIC

Witness	Position and Organisation
Gerard Brody	Commissioner & Chairperson, Essential Services Commission
Marcus Crudden	Executive Director, Price, Monitoring & Regulation, Essential Services Commission
Tash Wark	Branch Secretary, Australian Services Union
Mike Gooley	Executive Director, Local Government Victoria
Celia Haddock	CEO, Maribyrnong Council, M9
Phillipa Balk	Industrial Officer, Australian Services Union
Dr Peter Mitchell	President, Geelong Ratepayers Association
Colin Morrison	Executive Officer, Local Government Victoria

Appendix B

Cost shifting challenges faced by South Gippsland Council



Cost Shifting Challenges Faced by South Gippsland Council

South Gippsland Shire Council faces many cost shifting challenges some of which are historical and some of which are more recent. The table below outlines some cost shifting examples impacting South Gippsland.

Challenge	Our Experience	Financial/Resource Impact
Crown Land Management and Asset Challenges	Increasing applications from Committees managing Crown Land facilities for basic maintenance and renewal of their buildings via Council Community Grants – with older halls the most prevalent.	There is an administrative burden and resource impost associated with managing crown land. Increased strain on Council's Community Grants Program.
	The community is not easily able to identify the difference between sites managed by Council or Crown Land committees. Community expectations mean that they expect Council to subsidise the lack of service and funding in the latter.	Reputational impact on Council and recognition of inequity by communities who rely on Victorian Government assets.
	Recreation Reserve Committees managing Crown land with no funding from the Department of Energy, Environment and Climate Action and Council subsidises their expenses.	As above.
	Council currently has 63 community groups included on its insurance register for assets that are not Council owned or managed.	The premium for the 2023/24 financial year for these groups was \$73,785.37 being 23 per cent of the total premium paid. Council does recoup this cost from the community groups (with the exception of one year's premiums that were waived as part of the COVID-19 Community Support Package), but many require follow-up for payment.

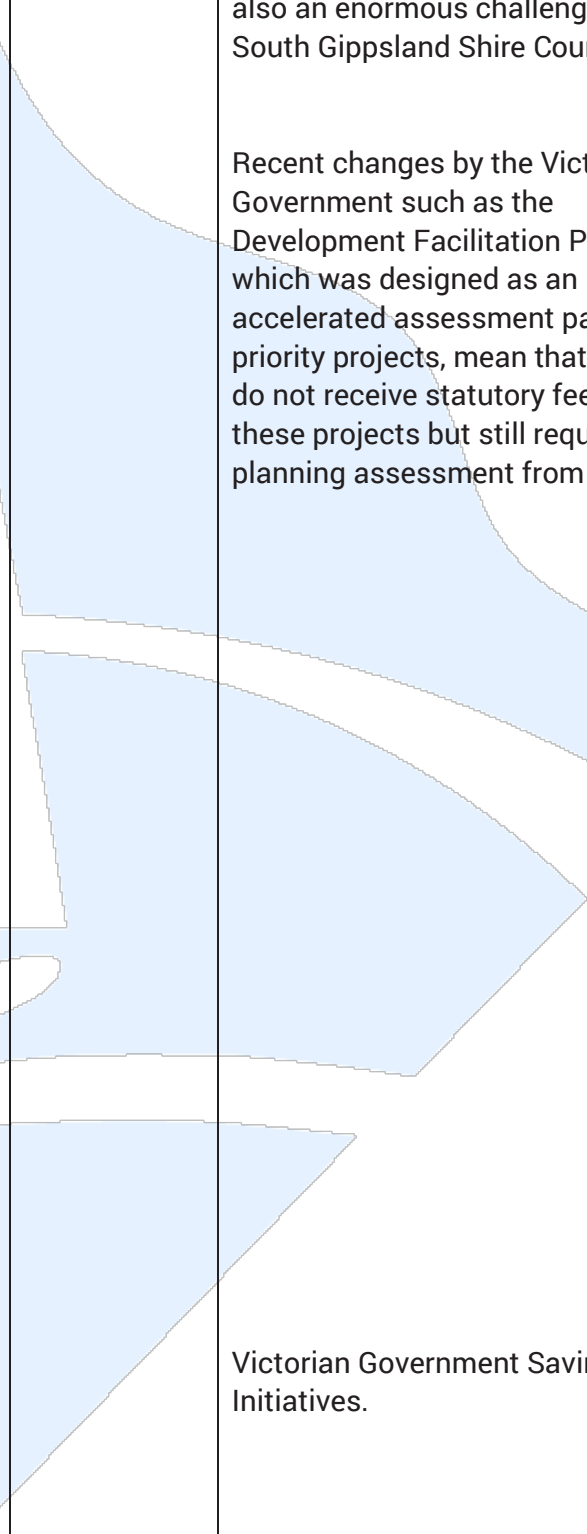


	<p>Coal Creek Community Park & Museum which is located on crown land in Korumburra.</p> <p>Weed Management</p>	<p>A likely risk that the declared values of these non-Council owned or managed assets are understated and could result in significant financial exposure to Council for a claimable incident.</p> <p>Council is currently undertaking a comprehensive community engagement process to assist Council determine a future direction for Coal Creek. A draft Strategic Plan is currently being prepared.</p> <p>Weed management on Crown Land has also become an impost for local government.</p>
Increasing Regulation	<p>Demonstrated by recent proposed draft obligations on managers of land or infrastructure requiring:</p> <ul style="list-style-type: none">• Council to ensure that stormwater under its control does not pose a risk to human health or environment. It appears that point source contamination that used to be handled by Environmental Protection Agency, now becomes Council's.• Council to publish a Stormwater Management Plan every five years.• Council to publish Domestic / On-site Waste Water Management Plans.	<p>Rural Councils do not have the capacity to implement many changes that come about with regulatory reviews.</p>



Disaster Funding	<p>A resource-heavy process where years later Councils are still trying to recover spent funds from statutory authorities.</p> <p>Very strict requirements to have 'before' and 'after' photos of assets affected by events, taken from the exact same position (not acceptable to have video from a moving vehicle). Effectively this may mean Council officers have to stop and take a picture from several angles of anywhere where a landslip might occur so that we have the accurate before photo in case something occurs on a road network of thousands of kilometres.</p> <p>Policy to replace-like-with-like rather than consider betterment to prevent assets from failing over and over means that Council is replacing the same asset multiple times.</p>	<p>Council has a full-time officer whose role is to navigate emergency management funding. Annual cost is \$120,000 in salary for EFT and an unquantified impact on salaries across the organisation for teams that need to obtain evidence.</p>
Land Use Planning	<p>The fees and charges related to statutory and strategic planning do not cover the cost of the service provision. At South Gippsland the shortfall is (Planning Cost - Revenue).</p> <p>Planning Scheme Amendments that Council wishes to propose require significant outlays in expert reports and planning panels. The evidence required to justify a Planning Scheme Amendment can reach hundreds of thousands of dollars. The impost on rural councils is significant and due to cost pressures, this means that important strategic work has to be</p>	<p>Statutory and Strategic Planning Costs:</p> <p>2023/24 Budget</p> <ul style="list-style-type: none">• Revenue: \$701,312.• Expense: \$1,989,613.• Cost to Council: \$1,288,301. <p>2022/23 Actual</p> <ul style="list-style-type: none">• Revenue: \$813,963.• Expense: \$1,619,214.• Cost to Council: \$805,251. <p>Planning Scheme Amendment Fees 2023/24 YTD Actual</p> <ul style="list-style-type: none">• Fee Revenue: \$3,275 (stage one application).• Expenditure: \$10,506 (amendment is only half way through the stage one process so further expenditure will be incurred).



	<p>undertaken over long periods and impacts good planning outcomes.</p> <p>Greenfield development costs are also an enormous challenge for South Gippsland Shire Council.</p> <p>Recent changes by the Victorian Government such as the Development Facilitation Program, which was designed as an accelerated assessment pathway for priority projects, mean that councils do not receive statutory fees for these projects but still requires a planning assessment from Council.</p> <p>Victorian Government Saving Initiatives.</p>	<p><i>Case Study Example</i></p> <p>Commercial Planning Application \$5 million investment. Statutory Planning Fee prior to the Development Facilitation Program would have been \$9,341. In this example, the proponent utilised the Development Facilitation Program (cost to applicant the same as if lodged with Council).</p> <p>Department of Transport and Planning approach Council as a referral (non-determining referral). This meant conditions from Council are only our recommendations and there is no right of appeal.</p> <p>Engagement meant a full assessment of information provided, which was equivalent of a full planning application assessment. In this example, the assessment took two weeks of a senior planner's time and internal referral to an Environmental Health Officer and Engineer. Councillors were also briefed on the application. Due to community concerns, the applicant also briefed Councillors.</p> <p>Council has recently been advised that Agriculture Victoria will no longer be providing specialist advice on farming applications and councils will need to access this specialist advice from consultants. This is another cost Council will need to incur.</p>
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Planning for and responding to new industries and population growth in rural and regional communities	<p>The emergence of industries such as Renewable Offshore Wind Energy in Gippsland has the potential to provide a positive economic impact for our community with increased investment and employment in our region. Rural councils such as South Gippsland welcome new investment, especially knowing it will be a key stakeholder with the proposed use of the ports at Barry Beach for Operations and Maintenance for the Offshore Wind industry. This could see over 1,000 new long-term (30 years +) jobs created in the community in a relatively short period of time.</p> <p>This will create challenges for council to adequately prepare for and service the communities most impacted by such growth. Achieving the necessary land use and infrastructure planning in time to meet declared energy transition targets is beyond Council's current capacity and resources.</p> <p>All levels of government need to ensure that the appropriate levels of planning, especially with regards to land use, infrastructure and community services, are addressed well in advance of new industries being established in smaller rural areas.</p>	<p>Increased demand on council's planning and infrastructure resources, especially recruiting additional staff in hard to fill roles, above business as usual workloads.</p> <p>Increased demand to provide upfront funding towards enabling infrastructure, community facilities and increased community services to meet increased population growth in smaller and remote communities.</p> <p>Financial challenges will be further compounded if councils are expected to manage potential population and workforce growth (well above forecast predictions) without greater funding, early intervention and planning support from other levels of government.</p>
Coastal Adaptation, planning, implementation and community consultation	<p>Coastal Hazard mapping in South Gippsland is largely complete or underway. We have the data and are working in an evidence-based environment, yet we do not have the planning or authorising tools to act.</p> <p>Councils urgently need fit for purpose coastal planning tools and hazard overlays that allow a pause to</p>	<p><i>Case Study</i></p> <p>We currently have one example where a hydrology report has confirmed we cannot hold the water table back to prevent regular flooding in a low-lying township. The cheapest solution is around the \$20 million-dollar mark and won't necessarily work, we have a total budget of \$90 million and this</p>



	development in coastal hazard hotspots until we all have to means to make adaptation plans that reflect reality. No one council can deal with this, we need a federal minister for the coast and for the federal, state and local governments to work together, starting immediately.	is one small problem impacting around 10 residents.
Changes in State Government Legislation/Policy often with no consultation which impact local government	<p>Swimming pool compliance</p> <p>Collection of Fire Services Levy</p> <p>Changes in Early Years Learning Policy – meaning increased infrastructure on local government when they are not the service provider.</p> <p>Housing Statement- changing planning powers for the Victorian Government.</p> <p>Children's Crossing Supervisors</p>	<p>Significant resource impact with limited financial offset.</p> <p>Resource impact</p> <p>South Gippsland Shire Council has constructed two Early Years Centres in recent years and is planning for a third. This is a hugely significant outlay for a rural council. Additionally, impacts of policy change - increase of 15 hours for 3-year-old and now increase 30 hours for 4-year-old. Preference to put kindergartens on school sites - not on council land, council doesn't own the building or run the service but are expected to contribute and maintain the service. Also impact to parking & traffic - no consideration is given to this when planning or installing the kindergartens & Council is left to foot the bill for infrastructure changes such as car parking, children's crossings and bus stops.</p> <p>Resource impact</p> <p>Councils contribute more than half of what the program costs and have little control over the program. We only receive funding for the supervisors (less than half of what it costs council) and no funding to maintain or install new crossings.</p>



Waste	<p>Waste Disposal Costs – The Environment Protection Agency (EPA) regulation has a sustained impact on Council with regards to compliance with existing and past landfill sites. Waste disposal costs are also impacted by industry changes such as increasing landfill levies and negotiation of contracts e.g. recycling, sorting and acceptance.</p> <p>Landfill monitoring, after care plans, reports and landfill designs – Plans / Reports used to be submitted to EPA and work done by EPA at no cost, but now Council must undertake independent auditing which costs more than \$10,000 and a directive to use a shrinking pool of approved EPA auditors.</p> <p>Kerbside EPA Landfill Levy</p>	<p>In 2023/24 the EPA Landfill Levy collected by Council and paid to the Victorian Government is expected to be \$1.528 million.</p>
General Grant funds	<p>Grant funds distributed through local government (Council as banker) for community facilities and other projects mean that Council is left to contribute to shortfalls and cost increases, often on assets we do not control.</p> <p>Grant funds given allow for establishment but not for operations/maintenance.</p> <p>Grant funds appear to have not increased in line with inflation/increased costs.</p>	
Windfall Gains Tax	<p>Windfall tax applies to sale of Council land which normally has to be rezoned to be able to be sold, therefore triggering the tax of approximately half the value to the State Government.</p>	<p>This financial loss impacts Council's ability to fund new or replace assets as land sales are generally predicated on investing the funds into new or replacement assets/infrastructure.</p>

Appendix C

Victorian State-Local Government Agreement

C

Victorian State-Local Government **Agreement**



THE VICTORIAN STATE-LOCAL GOVERNMENT AGREEMENT

Establishing Principles to Guide State-Local Government Relations on Local Government Matters

Signed by:



The Hon Dr Denis Napthine, MP

Premier of Victoria



The Hon Tim Bull, MLA

Minister for Local Government



Cr Bill McArthur

President of the Municipal Association of Victoria
on behalf of local government in Victoria

on the 10th day of September 2014

PREAMBLE

1. The Premier and the Minister for Local Government on behalf of the Victorian Government, and the President, Municipal Association of Victoria, on behalf of the Victorian local government (the Parties) enter into this Victorian State-Local Government Agreement to strengthen state–local government relations by building a collaborative working relationship between state and local government and improving communication and consultation.
2. The Victorian Government recognises in Part 2A of the *Victorian Constitution Act 1975*, that local government is ‘a distinct and essential tier of government consisting of democratically elected Councils having the functions and powers that the Parliament considers are necessary to ensure the peace, order and good government of each municipal district’.
3. The Parties agree:
 - i. to give effect to the *Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters* (IGA) by entering into the *Victorian State–Local Government Agreement* (VSLGA); and
 - ii. the VSLGA will serve as the basis for continuing relations between state and local government in Victoria, and does not depend on the continued operation of the IGA.



PART 1

APPLICATION OF THE VSLGA

4. The VSLGA applies to state and local government in Victoria.
5. The VSLGA applies to arrangements where the State:
 - i. intends for local government to administer or enforce new or revised primary legislation or regulation, or act as an agent and deliver services on its behalf
 - ii. is, or intends to, partner with local government to deliver programs
 - iii. is, or intends to, fund local government to deliver a program
 - iv. may be affected by the relationship between the Commonwealth Government and local government.
6. The VSLGA is not a legally binding agreement, however, it is an agreement negotiated and entered into in good faith by the parties and shall be respected accordingly.

PART 2

OBJECTIVE

7. The objective of the VSLGA is to encourage the conduct of positive and productive relations between state and local government by committing to improved and sustained levels of communication, consultation and cooperation.
8. State and local government are committed to progressing social, economic and environmental outcomes for Victoria's communities by:
 - i. improving coordination and strategic planning of government services and functions at the local level;
 - ii. strengthening the capacity of local government to provide services and functions;
 - iii. promoting greater transparency and accountability between state and local government; and
 - iv. fostering a culture of continuous improvement to enhance the performance of both levels of government.



PART 3

AGREED PRINCIPLES

9. For the benefit of Victorian communities, the Parties agree that the following principles should guide state-local government relations:
- i. Relations between state and local government should be conducted in a spirit of mutual respect with an emphasis on improving communication and cooperation.
 - ii. Local government is accountable to its local communities and its operational autonomy is recognised and supported.
 - iii. The Victorian Government is accountable to the people of Victoria and its state-wide obligations are recognised.
 - iv. The diversity of local government's financial capacity and the Victorian Government's fiscal position should be mutually recognised.
 - v. The transparency of the financial relations between state and local government should be improved to enhance decision making. The Victorian Government commits to reporting its financial relationships with local government in its annual Budget.
 - vi. The use of intergovernmental agreements should be promoted to ensure that roles and responsibilities are clearly articulated and full financial considerations are made.
 - vii. State and local government recognise the value in seeking the support of the other when making representations to the Commonwealth Government that have implications for another level of government.
 - viii. Local government recognises that it is responsible for significant community assets and commits to sound public governance through good financial and asset management reporting.
 - ix. Collaboration and cooperation of local governments with each other to support initiatives such as regional or sub-regional development should be encouraged.



PART 4

IMPLEMENTATION OF THE VSLGA

10. Where the Victorian Government intends for local government to administer or enforce new primary legislation, or new or revised regulation, the relevant lead department shall, subject to exceptional circumstances, consult with local government in accordance with the Victorian Guide to Regulation. In doing so, the relevant department shall consider the impacts of the regulation on local governments, including any cost and resource impacts on local governments of administering the regulation.
11. The State commits to consultation other than in exceptional circumstances with local government on any material change to funding agreements that impact on local government. It recognises the importance of the resources available to, and the capability of local government, to effectively administer and enforce state regulation.
12. In acting to meet the objectives and principles of the VSLGA, state and local government, and local government peak bodies agree to:
 - i. Continue to work in partnership to deliver an agreed annual workplan.
 - ii. The introduction and application of a new Cabinet process to assess local government impacts of policy, as appropriate, to ensure consistent consideration and appropriate processes for consultation with local government on issues that may impact on local government.
 - iii. Respect the diversity of views from within local government as represented by the sector and the local government peak bodies.
 - iv. Continue to streamline state regulatory and reporting requirements on local government.
 - v. Implement an agreed program of work around streamlining of the administrative processes associated with funding administration between both levels of government, and the introduction of streamlined and simplified agreed standard funding agreements between state and local government.
 - vi. Demonstrate continuous improvement in service delivery and productivity gains in local government, as illustrated by the annual results of the local government performance reporting framework.
13. A range of mechanisms for state-local government engagement will be maintained in a register of working committees and plans required to be developed by councils for each Portfolio to support the VSLGA. This will illustrate the way each Portfolio Minister is working more closely with local government.
14. In the interests of strategic planning and effective resource allocation, local government will consult the Victorian Government before entering into any agreement with the Commonwealth Government that may affect state government.

PART 5

EVALUATION AND REVIEW

15. The Victorian Government will monitor the implementation of the VSLGA and evaluate its performance on a regular basis. Accordingly the Parties agree to:
 - i. Annually maintain and review a register of working committees and plans required to be developed by councils for each Portfolio to support the VSLGA.
 - ii. The Minister for Local Government will seek six-monthly written feedback from the Municipal Association of Victoria, Victorian Local Governance Association and Local Government Professionals Inc. regarding successes and failures of parties to work in accordance with the VSLGA.
 - iii. The Minister for Local Government to meet individually with the Municipal Association of Victoria, Victorian Local Governance Association and Local Government Professionals Inc on a quarterly basis regarding successes and failures of parties to work in accordance with the VSLGA.
 - iv. The Minister for Local Government writing annually to Cabinet colleagues reminding them of their obligation to adhere to the VSLGA.

Extracts of proceedings

Legislative Council Standing Order 23.20(5) requires the Committee to include in its report all divisions on a question relating to the adoption of the draft report. All Members have a deliberative vote. In the event of an equality of votes, the Chair also has a casting vote. The Committee divided on the following questions during consideration of this report. Questions agreed to without division are not recorded in these extracts.

Chapter 1

Dr Mansfield moved, that in Chapter 1, section 1.4, the word ‘some’ be deleted.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Ms Purcell	Ms Broad
Dr Mansfield	Mr Davis
Ms Terpstra	Mr Welch ¹
Ms Deeming	Mr Berger
	Mr Galea

The question was negatived.

Chapter 2

Ms Broad moved, that the following words be inserted in Chapter 2. section 2.3.4:

However, the Victorian Government has not fulfilled the agreed funding for several of these commitments, leaving local governments to bear the burden of this funding shortfall. This will be discussed in detail in chapter six.

The question was put.

¹ Mr Welch was a substitute for Mr Mulholland for the first hour of the meeting. After that he withdrew and Mr Mulholland resumed as the voting member of the Committee.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.²

Dr Mansfield moved, that the following words be inserted in Chapter 2, section 2.3.4:

Other councils may be the provider of last resort due to lack of local alternatives.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.

Ms Broad moved, that the following words be inserted in Chapter 2, section 2.4.2:

The costs of infrastructure and service delivery have risen at a pace that outstrips the growth in grant funding.

The question was put.

² Where a question is agreed after a division, the adoption of the relevant lines are taken to be 'as amended'.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.

Mr Davis moved that, in Chapter 2, section 2.4.3, the following text be omitted:

In October 2024, the Victorian government announced plans to change the way local infrastructure funding in Victoria is raised and spent. The Government announced a new pilot developer contribution system in 10 new activity centres in existing suburbs that are earmarked for development. According to the announcement, 43 of 79 councils collect developer contributions in different ways, and there are 133 separate developer contribution plans in place across the state.

While acknowledging that this system has generated some benefits, the announcement recognised that it is unfair, leads to infrastructure in the wrong areas, inconsistencies and administrative complexities.

At this stage there is limited detail about the statewide model, with an industry working group due to commence work in November 2024 to look at models for change that will benefit ‘industry, councils, government and communities’.

However, in the interim, the government intends to introduce a “simple developer contribution pilot in 10 busy areas close to jobs, transport and services where more homes are coming under the Government’s Activity Centre program.”

These initial activity centres, which will be based in Broadmeadows, Camberwell, Chadstone, Epping, Frankston, Moorabbin, Niddrie, North Essendon, Preston and Ringwood, will include a walkable 800 metre catchment area that surrounds the commercial core of each precinct that supports “gentler, scaled growth appropriate for each community”.

According to the government’s announcement, the Department of Transport and Planning will “advise on lists of infrastructure needs in each of these communities, where 60,000 additional homes can be delivered through the Activity Centre program by 2051.”

This contribution system in 10 Activity Centres will commence on 1 January 2027 and the government has said that it will engage with industry before announcing fees, and these fees should not necessarily be considered a benchmark for a proposed statewide reform.

This program has not yet commenced and therefore its impact will not be known for some time, possibly several years. It is therefore not appropriate for the Committee to comment on its effect on local government finance and service delivery at this time.

And replaced with the following text:

The Committee heard evidence from councils including Moonee Valley City Council about the Victorian Government's announcement of 10 activity centres in suburbs that are earmarked for development. The activity centres will be based in Broadmeadows, Camberwell, Chadstone, Epping, Frankston, Moorabbin, Niddrie, North Essendon, Preston and Ringwood, will include a walkable 800 metre catchment area that surrounds the commercial core of each precinct.

Moonee Valley City Council noted an anticipated population increase along with the activity centres. Ms Sui noted the implications in relation to needs for additional open space to accommodate increased population density:

The one thing we have been advocating for very strongly with our state government colleagues is our infrastructure needs to support increased population – connected transport and also it means more bus/tram connecting with the train network and importantly open space. Through COVID particularly, everyone appreciates the value of open space for the wellbeing of the community.

I do not see necessarily that there is no potential for open space. I think that is a thing we need to work through, how we enable that to happen. I would certainly like to see support for a review of the open space levy, because what we have in place needs council to work together with the state government. Ours is probably at least 10 years old. Our open space levy needs to be reviewed with the new target and whether that is still appropriate. It is the same with the infrastructure levy, the Development Contribution Plan (DCP).

In relation to consultation and planning for additional open space, Ms Sui said:

but certainly need a more detailed analysis, particularly for the activity centres. What does the open space requirement look like? Moonee Valley City Council, like many councils, already has an open space strategy. We do need to have more deep conversation and research about what does that mean and in which pocket. Certainly for an inner-city council one of the main issues is where the money will come from. How is that working with the money for housing, and what other different opportunities are there?

Such consultation should include consideration of a sewage plan.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.

Mr Davis moved that the following finding be inserted in Chapter 2, section 2.4.3:

No consultation occurred with local government on the catchment areas.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.

Mr Davis moved that the following finding be inserted in Chapter 2, section 2.4.3:

That the Victorian Government has offered no support for open space or key local services to support the massively increased population.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Chapter 3

Ms Broad moved that the following finding be added in Chapter 3, section 3.1:

Local councils are facing increased budget pressures due to cost shifting by state and federal governments. Without substantial changes, the financial sustainability of council operations is at risk, with some services already being reduced or discontinued entirely.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	
Dr Mansfield	
Ms Deeming	

The question was agreed.

Ms Broad moved that the following finding be added in Chapter 3, section 3.1:

The roles and core service responsibilities of local government in Victoria lack clear definition, creating a burden on councils to determine what is expected of them. This disproportionately impacts regional and rural councils, which face disadvantages due to limited revenue-raising capacity and the need to provide additional services arising from the geographic size of the municipality and service gaps within their communities.

The Committee divided.

Ayes (5)	Noes (4)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Purcell	Dr Mansfield
Ms Deeming	

The question was agreed.

Ms Broad moved that the following recommendation be added in Chapter 3, section 3.1:

That the Committee send a request to the Victorian Auditor-General to investigate and report on the financial impacts of cost-shifting from state and federal governments onto all Victorian councils.

The question was put.

The Committee divided.

Ayes (5)	Noes (4)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	Ms Purcell
Ms Deeming	

The question was agreed.

Ms Broad moved that the following text be added in Chapter 3, section 3.1:

While each local government would have a different profile of 'core services', the impact of the rate cap, dependency on grant funding and cost shifting has had a detrimental impact on the capacity of MRCC to maintain levels of service. Decisions have been made to prioritise services, with constraints placed upon services, and will continue to be made if the deterioration in financial sustainability of local government is not addressed.

As I said, you know, many councils were providing aged care services and have exited that area, but we have got cases where councils are providing child care. Most councils are doing school crossings. I would say those are things that really probably should not be local governments responsibility. And then, as I said, you have got the issue of Crown land reserves, and those committees, who are all volunteers, are looking after those areas of the state for the benefit of the state as a whole with very little support from the state.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following text be added in Chapter 3, section 3.3:

FinPro acknowledges that rates are a really substantial part of local government finances – 50 to 60 per cent, depending probably on the different council groups. We acknowledge the state government’s policy around the rate cap program, and we are not advocating for the removal in full of a rate cap. What we are recommending, though, is that there needs to be a review of the indicators used, the criteria that have been in place – there needs to be a review of how the rate cap system is actually working. We are calling on a local government cost index rather than the use of CPI based on projections. Effectively over the past period of time often the DTF possible CPI rates have been used. This is not a true reflection of the costs being incurred by local government and certainly does not look at what has happened over the last couple of years going forward. We think the rate cap system needs to be looked at in terms of: how is it working for all 79 councils, for all different cohorts of councils, and particularly around how has it been effective and efficient since its introduction? There is a really vast difference in the value of an average rate right across all 79 councils. As we noted, I think it is important in terms of consideration of that local government cost index taking into account our constructions and our sector.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Welch	Ms Terpstra
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved, that the following finding in Chapter 3, section 3.3, be omitted:

Victorian councils have little ability to influence the rate of revenue they collect.

The question was put.

The Committee divided.

Ayes (7)	Noes (2)
Mr Welch	Ms Purcell
Ms Broad	Dr Mansfield
Mr Davis	
Ms Deeming	
Ms Terpstra	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved that the following recommendation in Chapter 3, section 3.3.2, be omitted:

That the Victorian Government raise borrowing thresholds on Treasury Corporation loans for interface and other growth area councils who need to deliver capital projects in a timely manner for their fast-growing communities.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Welch	Ms Purcell
Ms Broad	
Mr Davis	
Ms Deeming	
Ms Terpstra	
Mr Galea	
Mr Berger	
Dr Mansfield	

The question was agreed.

Ms Broad moved, that the following finding be inserted in Chapter 3, section 3.3.2:

Treasury Corporation Loans should not replace adequate government funding and relying on these loans risks burdening councils with debt and impacts service delivery.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved, that the following recommendation be inserted in Chapter 3, section 3.3.2:

The Victorian Government should provide councils with adequate funding for capital expenditure, rather than generating revenue through interest payments from financially strained councils.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved, that the following recommendation be inserted in Chapter 3, section 3.3.2:

The Victorian Government act expeditiously and not delay funding for projects out of GAIC or development contributions due to the risk of escalating project costs.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Welch	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved, that the following text be inserted in Chapter 3, section 3.4.3:

According to FinPro, analysis of total capital works investments using consolidated amounts is inappropriate. “While not a desirable outcome, the underspend in capital works is deferring the short term deterioration of financial position of local government, and likely deteriorating the longer term financial position’. (P6 of FinPro submission). Other challenges with delivering capital works include obtaining necessary contractors and grants timing.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Welch	Ms Terpstra
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved, that the following recommendation be inserted in Chapter 3, section 3.5.3:

The Victorian Government should reinstate the Council Planning Flying Squad for its 48 regional and rural councils, an initiative to provide short-term expertise and assistance to ease the backlog of planning requests. This will enhance the capacity of councils to address planning challenges effectively and ensure timely project approvals.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 3, section 3.5.4:

That the Victorian Government establish a local government climate resilience fund

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Terpstra moved that the following finding in Chapter 3, section 3.7.3, be omitted:

Unrestricted cash is a more reliable indicator of the financial health of councils than total cash reserves. Levels of unrestricted cash are lower than total cash and in decline.

The question was put.

The Committee divided.

Ayes (7)	Noes (2)
Ms Terpstra	Dr Mansfield
Mr Mulholland	Ms Purcell
Ms Broad	
Mr Davis	
Mr Berger	
Mr Galea	
Ms Deeming	

The question was agreed.

Mr Davis moved that the following text be inserted in Chapter 3, section 3.7.3:

Importantly to note for the committee, it is across all council cohorts. It is not just in small rural or large rural or regional cities. All council cohorts since 2016–17 have seen a deteriorating trend in their underlying surpluses. There has been a deterioration in the unrestricted cash position across the local government sector, and the ESC, the Essential Services Commission, also provided that advice to the minister.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 3, section 3.7.4:

There is no established and consistent measure for the financial sustainability of councils, leading to challenges in assessing and comparing their long-term financial health across the sector.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Terpstra moved that the following finding in Chapter 3, section 3.8, be omitted:

Victorian councils face a trend of deteriorating financial sustainability across all council types, which will worsen over the next five to ten years.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Mr Galea moved that in Chapter 3, section 3.8, the text ‘which will worsen over the next five to ten years’ be replaced with ‘a trend predicted to continue over the next five to ten years’.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Mr Davis moved that in section 3.8, 'due at least in part to cost shifting' be added to the end of finding 17.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Chapter 4

Dr Mansfield moved that the following text be added in Chapter 4, section 4.1:

The impact on ratepayers is mixed, with 40% experiencing a reduction in their in their rates since the policy was implemented, but others including some farmers and rural property owners have experienced rate increases.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following text be omitted from Chapter 4, section 4.2:

The evidence presented to the Committee indicates there is support for the rate cap amongst many stakeholders, or at worst an acknowledgement and understanding of the policy. While the policy was not supported by all stakeholders, few advocated for its wholesale repeal, which one stakeholder said ‘would be a free-for-all.’

The question was put.

The Committee divided.

Ayes (1)	Noes (8)
Dr Mansfield	Mr Mulholland
	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming
	Ms Purcell

The question was negatived.

Mr Mulholland moved that the following text in Chapter 4, section 4.2, be omitted:

The evidence presented to the Committee indicates there is support for the rate cap amongst many stakeholders,¹ or at worst an acknowledgement and understanding of the policy.

And replaced with the following text:

The evidence presented to the Committee from stakeholders acknowledges broad community support for the rate cap.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Dr Mansfield moved that the following text in Chapter 4, section 4.2 be omitted:

Stakeholders provided a number of recommendations on how to improve or modify the way the rate cap is calculated (which are discussed later in this Chapter), rather than a root and branch reform. As such the Committee has not been minded to recommend a repeal of rate capping.

And replaced with the following text:

Stakeholders provided a number of recommendations on either removing the rate cap, or at least modifying the way that the rate cap is calculated (which are discussed later in this Chapter).

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Dr Mansfield	Mr Mulholland
Mr Davis	Mr Berger
Ms Broad	Mr Galea
Ms Purcell	Ms Terpstra
	Ms Deeming

The question was negatived.

Dr Mansfield moved that the following finding be added in Chapter 4, section 4.3.1:

Rate Capping has significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Mulholland moved that finding 1 in Chapter 4, section 4.3.1, be amended to read as follows:

Rate Capping and cost shifting have significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Terpstra moved that the following text from Chapter 4, section 4.3.2, be omitted:

The groups of ratepayers that have experienced rate cap reductions are residential property owners and commercial and industrial property owners.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Mr Davis moved that the following text be added to finding 2 in Chapter 4, section 4.3.2:

44% of rate payers have seen increases above the cap

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 4, section 4.3.2:

Farming, rural properties and small businesses have been disproportionately affected by Victoria's rate cap, with many experiencing significant rate increases. This is primarily due to rising property valuations, council's choices when striking the rate in the dollar, and the use of differential rating by councils. This has resulted in higher rates for farmers, often exceeding their capacity to pay, and exacerbating financial pressures on the agricultural sector.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be added in Chapter 4, section 4.3.2:

That the Victorian government instigate a review of the ratings system to ensure no particular category is carrying an unfair burden of the rates levied, with particular reference to farmers, small businesses and rural property owners

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following text in Chapter 4, section 4.3.3 be omitted:

While it acknowledges the significant disincentives in applying for a rate cap variation (as discussed in chapter 3), the variation process is still the most appropriate avenue for seeking a revenue adjustment in this regard.

And replaced with the following text:

There are significant disincentives to apply for a rate cap variation (as discussed in chapter 3).

The question was put.

The Committee divided.

Ayes (1)	Noes (8)
Dr Mansfield	Mr Mulholland
	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the following recommendation be added to Chapter 4, section 4.3.3:

That the Essential Services Commission allow all councils that had smaller average rates when rate capping was introduced to be able to increase their rates back up to the average.

The question was put.

The Committee divided.

Ayes (1)	Noes (8)
Dr Mansfield	Mr Mulholland
	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the following recommendation be added in Chapter 4, section 4.4.2:

That the Victorian Government remove the rate cap, provided councils have accessible and equitable hardship policies in place.

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Broad moved that the following text be inserted in Chapter 4, section 4.5:

Timing of funding:

The committee heard from council representatives who highlighted the timing challenges they face in budget planning due to late notification of rate caps.

Allison Jones from South Gippsland Shire Council explained that:

That was linked to the Essential Services Commission – when they tell us what our rate cap will be. We start our briefing with councils in a non-election year in about October for the next budget. We are talking about what is happening in terms of what we think CPI will be, all of those things, and then – it feels like it is Christmas eve – we find out what the rate cap is. Councils generally have a break in January and we start briefing again in February, and we have just lost all of that time to be able to build our budget and know what the main assumption is. The timing feels odd.

Sheena Frost from Hume City Council explained:

Thank you for the question. I think it makes it quite difficult to plan effectively. Well, it is not fair to say ‘plan effectively’, but we have to be very conservative in how we are planning. We start our budget process effectively now, but we will not find out often until very late December what the cap is. You end up having to be quite conservative in what you might be planning for. Also, with the financial assistance grants some of the timing becomes quite difficult. It would help the planning and consideration and make for better decision-making along the way to have forward notice and some greater certainty around what something will be. As part of any normal budgeting cycle, a bit more certainty would be helpful.

Taryn Abrahamsson also added that:

I was just making the point that it would be good for us to be able to match that expenditure to expected revenue if we were to know the amount that we are actually going to be getting pre Christmas.

These witnesses suggested that if councils could receive rate cap information before December, it would support more effective and accurate budget planning.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 4, section 4.5:

Local councils face significant challenges in preparing their annual budgets due to delays in receiving essential financial information regarding the rate cap.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 4, section 4.5:

The Victorian Government should provide local councils with timely and clear information regarding the annual rate cap, enabling them to plan and budget more effectively for the coming financial year.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following recommendation be omitted from Chapter 4, section 4.5.2:

That the Victorian Government review the applicability of a mechanism that would allow the Essential Services Commission to correct the rate cap in a subsequent year if the actual CPI is above or below the projected CPI which was the basis of a rate cap decision. Any review should take into account the capacity of ratepayers to bear higher rates.

The question was put.

The Committee divided.

Ayes (8)	Noes (1)
Mr Mulholland	Ms Purcell
Ms Broad	
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Terpstra	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved that the following recommendation in Chapter 4, section 4.5.2, be omitted:

That the Essential Services Commission conduct a review of the rate cap formula, with a view to assessing whether a weighting of 100% toward the CPI is appropriate. Such a review should consider whether a local government cost index should be used that would give weighting to the Wage Price Index and construction costs. The review should also have regard for the capacity of ratepayers to bear higher rates.

And replaced with the following recommendation:

That the Essential Services Commission conduct a review of the rate cap formula. Such a review should consider whether a local government cost index should be used that would give weighting to the Wage Price Index and construction costs and have regard for the capacity of ratepayers to bear higher rates.

The question was put.

The Committee divided.

Ayes (7)	Noes (2)
Mr Mulholland	Ms Terpstra
Ms Broad	Dr Mansfield
Mr Davis	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Mr Davis moved that the following recommendation be inserted in Chapter 4, section 4.5.3:

That recommendation 3 above must not lead to higher rates.

The question was put.

The Committee divided.

Ayes (3)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
	Dr Mansfield
	Ms Purcell

The question was negatived.

Chapter 5

Ms Broad moved that the following text be inserted in Chapter 5 section 5.1.1:

However, over time, these grants have been reduced, and the government has increasingly failed to fulfill its funding commitments, leaving councils to absorb the shortfall.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Terpstra moved that the following finding in Chapter 5, section 5.2.1, be omitted:

Most councils advocate for increased untied funding from the Victorian Government. Councils state that untied funding would allow for more flexible expenditure of funds according to local needs and wouldn't require councils to incur significant costs applying to competitive tied grant processes.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.2.1:

That Victorian Government review all local government grant programs with a view to making them untied where possible

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 5, section 5.2.1:

The Victorian Government should increase untied funding to councils within specific categories, such as roads, to allow councils greater flexibility in addressing local needs and to reduce the costs and administrative burden of applying for competitive, tied grants.

The question was put.

The Committee divided.

Ayes (5)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.2.2:

That the Victorian Government review all local government grant programs with a view to making them multi-year where possible

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.2.2:

That the Victorian Government review all local government grant programs to ensure that they consider whole-of-life asset costs and operations.

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Broad moved that recommendation 3 in Chapter 5, section 5.2.5 be amended to read:

That the Victorian Government should look to provide grant programs wherever possible that support asset renewal and maintenance to address a growing asset renewal backlog and the needs of local communities.

The question was put.

The Committee divided.

Ayes (7)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.3.2:

That the Victorian Government review the grant application process with a view to simplifying it

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding in Chapter 5, section 5.3.3:

Co-Contribution requirements is preventing equal participation in grant programs and likely entrenching the disadvantaged faced by lesser-resourced councils, particularly those in rural and regional areas.

Be amended to read:

While co-contribution grant programs can be beneficial in delivering an increased number of services, this requirement prevents some lesser resourced smaller rural and regional Councils from applying for grants.

The question was put.

The Committee divided.

Ayes (7)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.3.3:

That the Victorian Government ensure grant programs take account of council financial capacity with respect to co-contribution requirements

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following text be inserted in Chapter 5, section 5.3.6:

Kirsten Alexander, CEO of Mansfield Shire Council said during a public hearing: “Just some examples in terms of some funding shortfalls: council had to borrow \$2.6 million in order to complete the heavy vehicle alternate route around Mansfield, and that was a project that we did receive some Commonwealth funding for dating back as far as I think 2017, but no state funding as far as I am aware was supplied to that project despite some requests for some matching funding where we intersect with state roads. We have had difficulties in relation to a black spot location on Mansfield-Whitfield Road, and we have tried to seek a state contribution to that road. It is at a place where a council road and a state road intersect. It is a black spot. It has had a fatality. We were recently awarded, after several attempts from our small team to try and get Commonwealth funding for that location, \$2 million, but we were quite dismayed

to find out that 9 per cent of that funding was removed by the state in the funding agreement we were given to sign. That was a big blow, because that is equivalent to our project management costs, and we have written to the state asking for that to be reinstated. The stated reason for that funding being removed was that it was for internal department costs, but needless to say, that was a surprise, and not a welcome one.

The question was put.

The Committee divided.

Ayes (7)	Noes (2)
Mr Mulholland	Mr Berger
Ms Broad	Ms Terpstra
Mr Davis	
Dr Mansfield	
Ms Deeming	
Ms Purcell	
Mr Galea	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 5, section 5.3.6:

The Victorian Government took nine per cent of a \$2 million federal blackspot grant intended for a state and local council road intersection project under the guise of “internal department costs”, despite not overseeing or contributing financially to the project.

The question was put.

The Committee divided.

Ayes (5)	Noes (4)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	Ms Purcell
Ms Deeming	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 5, section 5.3.6:

The State Government should not take money out of Federal Government grants allocated to local councils

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Davis moved that the following recommendation in Chapter 5, section 5.4.2, be omitted:

That the Victorian Government advocate to the Federal Government that the minimum grant requirement be reduced to see more funds allocated to councils on a relative need's basis.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following text in Chapter 5, section 5.4.3 be omitted:

The evidence put to the Committee was largely in support of this change, as it meant that the financial positions of councils would no longer be overinflated by Financial Assistance Grants 'dumping in before 30 June'.

Despite this, the Committee also heard that this change made 'for fancy headlines in local papers saying council is now running at a deficit' and may have 'caused a level of confusion for the reader or for the community who do not understand how councils can work and what the funding looks like'. This is likely a one-off adjustment, as it is anticipated that funds will continue to be paid in July within the financial year they are intended to be spent.

And replaced with the following text:

However, Matthew McPherson, Director Corporate from Campaspe Shire Council said during a public hearing:

The consistency and timing of payments for financial assistance grants is also a significant issue. Council received its 2023–24 financial assistance grants several days after the end of the 2023–24 financial year. Funds were paid by the federal government to the states with enough time that our neighbouring council, over the border in New South Wales, was able to receive and will report their grant funding in their 2023–24 financial report. Victorian councils, on the other hand, were made to wait to receive their allocated funds. One has to wonder why. While we have now received those funds, those few days of delay make a world of difference to our end-of-year financial result. After spending the year reporting to our community that we were working towards an improved position with respect to our deficit budget, we now find ourselves needing to report a full-year result that will be missing \$14 million of expected grant revenue. This chopping and changing in recent years about when financial assistance grants are paid leads to an erosion of trust and confidence in the administration by council and in council by our community – something that can and should be avoided.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 5, section 5.4.3:

The State Government deliberately delayed transferring the Federal Government's Financial Assistance Grants to councils until after the 2023-24 financial year ended, to improve its own financial reporting.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 5, section 5.4.3:

The Local Government Act should specify a fixed month each year for the payment of Commonwealth Financial Assistance Grants to councils, ensuring accurate management and planning of council budgets.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following finding in Chapter 5, section 5.5.2:

Lengthy Disaster Recovery Funding Arrangements claim processing times of up to three years delays critical repair works following natural disasters or severe weather events. Alternatively, it imposes significant financial risk upon councils who undertake repair works before Disaster Recovery Funding Arrangements claims are processed.

Be amended to read:

Disaster Recovery Funding Arrangements claim processing times delays critical repair works following natural disasters or severe weather events. Alternatively, it imposes significant financial risk upon councils who undertake repair works before Disaster Recovery Funding Arrangements claims are processed

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the following recommendation be inserted in Chapter 5, section 5.7:

That the Victorian Government consider create growth funds to support infrastructure delivery for different groups of councils experiencing rapid growth, including interface, peri-urban, and regional councils and consider greater use of works in kind agreements and deliver infrastructure in a timely manner.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.**Chapter 6**

Ms Broad moved that the following text be inserted in Chapter 6, section 6.3.1:

Mitchell Shire Council stated in their submission:

In 1975 library services were equally funded by State and local government, in 2023/24 the contribution by the State government represents approximately 20% of the operational cost of delivery which does not account for infrastructure related costs.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following finding in Chapter 6, section 6.3.1:

The Victorian Government provides recurrent funding to councils for the operation of public libraries. The proportion of funding the Victorian Government provides to councils has declined over time. This has resulted in a growing financial pressure for councils to provide library services that meet the needs of their communities.

Be amended to read as follows:

The Victorian Government provides recurrent funding to councils for the operation of public libraries. This has resulted in a growing financial pressure for councils to provide library services that meet the needs of their communities.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
Ms Purcell	Dr Mansfield
	Ms Deeming

The question was negatived.

Ms Broad moved that the following finding in Chapter 6, section 6.3.1 be omitted:

The Victorian Government provides recurrent funding to councils for the operation of public libraries. The proportion of funding the Victorian Government provides to councils has declined over time. This has resulted in a growing financial pressure for councils to provide library services that meet the needs of their communities.

And replaced with the following finding:

The Victorian Government has failed to maintain a 50/50 shared funding agreement for public libraries, placing a significant financial burden on local councils.

The question was put.

The Committee divided.

Ayes (5)	Noes (4)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	Ms Purcell
Ms Deeming	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.1:

The Victorian Government should restore a shared funding agreement of 50/50 with local councils for the operation of public libraries.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 6, section 6.3.2:

The Victorian Government has significantly reduced funding for the School Crossing Supervisor program and has failed to uphold its agreed equal funding arrangement with local councils. This has placed additional financial pressure on councils and risks the sustainability of this important service.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following recommendation in Chapter 6, section 6.3.2, be omitted:

That the Victorian Government ensure that funding for the School Crossing Supervisor program remain as a 50-50 funding split with Victorian Local councils.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Mr Davis moved that the words 'remain as' be replaced with 'reinstate a' in Chapter 6 Recommendation 31, section 6.3.2.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 6, section 6.3.3:

That the Victorian Government reinvest the waste levy into circular economy infrastructure

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Dr Mansfield	Mr Mulholland
Ms Deeming	Ms Broad
Ms Purcell	Mr Davis
	Mr Galea
	Mr Berger
	Ms Terpstra

The question was negatived.

Ms Broad moved that the following text be inserted in Chapter 6, section 6.3.3:

Fire Services Levy and renewable energy facilities rating scheme

The Fire Services Property Levy (FSPL) in Victoria is a tax imposed to fund the state's fire services, which includes both Fire Rescue Victoria and the Country Fire Authority (CFA). The levy is collected by local councils on behalf of the Victorian Government.

Livia Bonazzi from Murrindindi Shire Council said:

It is a very difficult process because the community does not discern what is council revenue raising versus revenue raising on behalf of the council. It is also an extra cost to council when we have to chase debt, because we actually have to chase debt on behalf of the government. So it is a hard story, and those fees have gone up higher

than our own council rates and yet our staff are left to deal with the complaints and the queries.

Wallaloo and Gre Gre District Alliance submission also explained issues regarding the Fire Services Property Levy and renewable energy projects:

The Fire Services Levy cannot be overcharged to farmers (80% increase) as is the current situation, with most of this increased revenue going to the city and then renewable energy and transmission companies given subsidized rates. This renewable infrastructure directly causes excessive fire risk in the high fire danger area of central Victoria.

Renewable energy facilities frequently rely on local infrastructure and services, including roads for equipment transport and emergency response support. By paying full rates, these projects would contribute their fair share toward the costs of maintaining and improving these services, just as other businesses and residents in the community do.

Alexandra Matthews from Wallaloo and Gre Gre District Alliance said during a public hearing:

Payments in lieu of rates schemes we think should be reviewed just to make sure that these renewable and transmission companies are not getting a free ride. It is not up to council and state to make regional Victoria a good investment for RE companies; they should be there to advocate for their communities. The fire services levy should not have been overcharged to us; again, that should go to the RE companies. It is not our responsibility to make it easy for them to set up shop, essentially.

Marcia McIntyre from Wallaloo and Gre Gre District Alliance further added:

Basically the amount that they have been charged has been significantly reduced while it has been put up on the farmers, who are actually already the volunteers doing the work. It is a ridiculous situation considering the fire risk involved both by starting and also fighting around these renewable energy transmission lines.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.3:

Renewable energy facilities should be classified under the industrial services property levy based on its operations' capital improved value, not the public benefit rate, to help fund the CFA and Fire Rescue Victoria, and should be required to pay the full Fire Services Levy.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Dr Mansfield
	Ms Purcell

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.3:

Renewable energy facilities should pay the full applicable rate charges to ensure they contribute equitably to the costs of local infrastructure and services, and support the financial stability of local governments.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Dr Mansfield
	Ms Purcell

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.3:

The Victorian Government to establish a fair and just funding arrangement with local councils regarding the management of legacy contaminated land sites, particularly those that have historically serviced wider local government areas.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.4:

The Victorian Government should reverse the annual immunisation tax of \$6,000 and the \$2 fee per immunisation administered by local governments, and instead provide sufficient funding for this responsibility, which falls under the purview of the Victorian Government.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.5:

The Victorian Government should consider Crown Land and associated assets that are currently managed by a Committee of Management to be formally transferred to local government ownership, where requested.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 6, section 6.3.5:

That the Victorian Government ensure funding is provided to support agreements to maintain State Government assets or Crown Land

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following finding be inserted in Chapter 6, section 6.3.6:

The existing funding model for Maternal and Child Health services places an excessive financial burden on local governments, particularly regarding immunisations, staffing, and facility costs, threatening the long-term sustainability of these services.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following recommendation in Chapter 6, section 6. 3.6, be omitted:

That the Victorian Government ensure that funding for maternal and child health services remain as a 50-50 funding split with Victorian local councils.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Ms Broad moved that the following text be inserted in Chapter 6, section 6.3.6:

The Victorian Government's 'Free Kinder' program

While the Victorian Government claims the program is free, local councils usually bear a substantial amount of the associated costs, particularly for the implementation and delivery of the service. Costs related to staffing, facilities, administration, and increased demand are not covered by the Victorian Government in full.

Andrew Mason from Warrnambool City Council told the committee:

I think what we are finding is that increasingly the issue with free kinder and three- and four-year-old kinder is, firstly, finding the workforce to deliver those services, and secondly, the capital cost of building and upgrading new kinders, given high inflation in the construction industry has become an issue for us. The Building Blocks

grants that are on offer are increasingly not covering the full cost of new or upgraded kindergartens... Well, it is certainly not free to council.

Jim Nolan, CEO of Pyrenees Shire Council further added:

In Pyrenees we do not provide the services directly, they are provided by a service provider. Council provides the facility and the service providers –

As Andrew said, the biggest cost is in the capital cost, and these are somewhat ageing facilities. I know the state has provided full cost of the extension to the Beaufort facility, but I do not have the actual costs of the original construction at this stage.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.3.7:

The Victorian Government should honour its commitment to fund 100 percent of its 'Free Kinder' program and the three- and four-year-old kinder programs, and not cost-shift to local government enormous capital and recurrent costs.

The question was put.

The Committee divided.

Ayes (5)	Noes (4)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	Ms Purcell
Ms Deeming	

The question was agreed.

Ms Broad moved that the following text be inserted in Chapter 6, section 6.4.1:

Kat Panjari from MAV stated the following during a public hearing:

Councils are also having to withdraw from arrangements the state government has directly benefited from. Many councils have arrangements to maintain state assets such as the weeds and vegetation on roadsides. This has been an efficient use of local resources that the state have not had to apply their resources to. However, funding arrangements have now gotten so far removed from actual costs that councils are forced to withdraw. The City of Yarra estimate that the costs to maintain state assets were up to 10 times the funding that they were provided. Financially sustainable councils can and are often required to step in and respond to issues as they emerge, from addressing social issues like homelessness, which we are identifying across rural and regional Victoria, to emergency response and recovery, and we need to ensure that councils have the ongoing capacity to prevent and step in and respond to local issues as they arise.

The question was put.

The Committee divided.

Ayes (7)	Noes (1)
Mr Mulholland	Ms Terpstra
Ms Broad	
Mr Davis	
Ms Deeming	
Ms Purcell	
Mr Galea	
Mr Berger	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.4.1:

The State Government should provide increased support and funding for weed and roadside management of State Government owned areas to assist local councils in maintaining safe and accessible road networks.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following text be inserted in Chapter 6, section 6.4.1:

Livia Bonazzi, CEO, Murrundindi Shire Council said during a public hearing:

Every time there is even, we had to replace a bridge because it was at the end of its life, and so the new alignment of the bridge it was argued that it was undisturbed land so we needed to put in cultural heritage plans. The interpretation of undisturbed land seems to have changed throughout the years since 2006 when the Act came into place and 5-10 years ago it wasn't so much of an issue. Now we hear that developers are walking out of developments because the cost of the cultural heritage plan is too high and other councils as well are experiencing that. It doesn't seem to be achieving the outcomes that is desired.

When asked how much it costs Murrundindi Shire Council, Ms Bonazzi said:

Depends on the scale of the project – we might have put an allocation of \$15,000, \$20,000 for the cultural heritage plan and it could be \$100,000, but here, you know, with Mitchell it just gets into the hundreds of thousands.

We are experiencing concerns with especially housing developments. They cannot proceed because of the cost and ironically, our own Traditional Owners have encountered exactly the same issue with their land, their knowledge of what was culturally important and even they could not proceed with some social housing projects that they wanted to develop because of the cost involved and the hurdles.

When asked “where is this money going?”, Ms Bonazzi responded:

It certainly doesn't go to the Traditional Owners and that's also an issue that potentially drives a wedge and this is one of the rare opportunities where council, developers, Traditional Owners and community are all aligned in a desire to perhaps having a more streamlined or maybe better definitions of what undisturbed land actually means, and having the Traditional Owners at the table because they're certainly not getting the value. I assume it's archaeologists or consultants, certainly the money doesn't go back to the community.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Dr Mansfield
	Ms Purcell

The question was negatived.

Ms Broad moved that the following finding be inserted in Chapter 6, section 6.4.1:

Cultural heritage assessments are costly, time-consuming, and lack regulation, significantly impacting local governments by delaying projects and increasing financial and administrative burdens onto councils.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Dr Mansfield
	Ms Purcell

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.4.1:

The Victorian Government to amend the Aboriginal Heritage Act and cultural heritage management processes to clarify the definition of “undisturbed land,” reduce costs for councils and developers, and establish standardised fees for cultural heritage assessments.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Dr Mansfield
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the following recommendation be inserted in Chapter 6, section 6.4.1:

That the Victorian Government work with the sector to develop a co-design process to ensure that the impacts of regulation on local government are considered.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 6, section 6.4.2:

That the Victorian Government annually review statutory fees in consultation with councils to ensure they reflect operational costs

The question was put.

The Committee divided.

Ayes (2)	Noes (7)
Dr Mansfield	Mr Mulholland
Ms Purcell	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Broad moved that the text ‘and the land tax regime’ after ‘windfall gains tax’ in Chapter 6, section 6.4.3.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Ms Broad moved that the following text be inserted in Chapter 6, section 6.4.3:

Amendments to the land tax regime and the recently introduced windfall gains tax are taxes that benefit the state government, not local government. These taxes, especially state government property-based taxes, will impact the ability for councils to attract investment for much needed additional housing, given the significant impact they will have on development costs that is ultimately reflected in land value increases. This may prevent investment in housing developments, which will impact regional and rural councils given the housing shortages in experienced in these areas. It is also likely council plans to proactively rezone land to promote development, housing, population and worker increases will be adversely impacted as well.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Ms Broad moved that the following recommendation be inserted in Chapter 6, section 6.4.3:

The Committee request the Victorian Auditor-General investigate the impact that increased property taxes are having on housing developments in Victoria.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Mr Galea moved that the following recommendation in Chapter 6, section 6.6.1:

That Local Government Victoria take a more prominent role in promoting knowledge of the Victorian State-Local Government Agreement amongst Victorian Government departments and agencies.

Be amended to read:

That Local Government Victoria review the Victorian State-Local Government Agreement amongst Victorian Councils and Government departments and agencies

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Dr Mansfield moved that the word ‘considered’ in Chapter 6, section 6.6.1 be omitted and replaced with ‘developed’.

The question was put.

The Committee divided.

Ayes (1)	Noes (8)
Dr Mansfield	Mr Mulholland
	Ms Broad
	Mr Davis
	Mr Berger
	Mr Galea
	Ms Terpstra
	Ms Deeming
	Ms Purcell

The question was negatived.

Ms Broad moved that the following recommendation in Chapter 6, section 6.6.1:

That Local Government Victoria work with the signatories of the Victorian State-Local Government Agreement to seek their consent to make the agreement mandatory. A compliance mechanism should be considered to ensure that Victorian Government departments and agencies fulfil their role as part of the agreement.

Be amended to read:

Local Government Victoria should report annually on the compliance of the Victorian departments and agencies in fulfilling their role as part of the Victorian State-Local Government Agreement.

The question was put.

The Committee divided.

Ayes (6)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Deeming	
Ms Purcell	

The question was agreed.

Mr Galea moved that the following finding in Chapter 6, section 6.6.2:

There is a lack of Victorian Government coordination and oversight on the nature and extent of cost shifting that has been mandated by the State Government on local councils. An audit would enable Local Government Victoria to better understand the extent of this issue and advocate more effectively to Government Departments and Ministers on behalf of local councils.

Be amended to read:

There is a lack of Victorian Government coordination and oversight on the nature and extent of cost shifting that has been mandated by the State Government on local councils. A review of the Victorian State-Local Government Agreement would enable Local Government Victoria to better understand the extent of this issue and advocate more effectively to Government Departments and Ministers on behalf of local councils.

The question was put.

The Committee divided.

Ayes (3)	Noes (6)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Terpstra	Mr Davis
	Dr Mansfield
	Ms Deeming
	Ms Purcell

The question was negatived.

Chapter 7

Mr Galea moved that the following recommendation in Chapter 7, section 7.1.4:

That the Victorian Independent Remuneration Tribunal review the base allowances of Councillors to ensure it is not barring good candidates from stepping forward to represent their communities.

Be amended to read:

That the Victorian Independent Remuneration Tribunal review the current number of elected representatives and appropriate remuneration base allowances of Councillors to ensure it is not barring good candidates from stepping forward to represent their communities.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Ms Purcell	Mr Davis
Dr Mansfield	Ms Terpstra
	Ms Deeming

The question was negatived.

Ms Broad moved that the following recommendation in Chapter 7, section 7 be omitted:

That the Victorian Independent Remuneration Tribunal review the base allowances of Councillors to ensure it is not barring good candidates from stepping forward to represent their communities.

The question was put.

The Committee divided.

Ayes (4)	Noes (4)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Purcell
Ms Terpstra	Dr Mansfield

The votes being equal, the Chair cast her casting vote with the noes.

The question was negatived.

Ms Broad moved that the following text in Chapter 7, section 7.1.6, be omitted:

The Committee did not receive sufficient evidence to recommend that 'core' services be defined.

The question was put.

The Committee divided.

Ayes (3)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
	Dr Mansfield
	Ms Purcell

The question was negatived.

Ms Broad moved that the following text be inserted in Chapter 7, section 7.2:

Regarding induction of new Councillors, Trevor Ierino from Indigo Shire Council said:

Seriously, 90 per cent of an induction program could be one document that we all share if someone in the state could spend five or 10 grand on putting together a document, and then we could just add bits to the end like 'insert name of councillors', 'insert name of staff here'. But really 90 per cent of what we are inducting our councillors on, Bernie would be doing the same stuff, Brad would be doing the same stuff, 75 other councils would be doing the same stuff about what the Local Government Act is, what your obligations as a councillor are, all that stuff – training. Why are we all going to consultants to write our own or spending our own time to write our own? One person could do it and we could all share it. We do do a lot of that, but it would be great if we actually had a structured approach. Code of conduct – I think we are looking now to do that as a state, which is great. But that could easily have been done years and years ago, and let us all follow the same one. Let us have the same transparency policies. Let us have the same privacy policies. Why aren't they all just the same policies? We are not that different from each other.

The question was put.

The Committee divided.

Ayes (5)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Purcell	

The question was agreed.

Ms Broad moved that the following recommendation be inserted in Chapter 7, section 7.2:

That the Victorian Government ensure requirements around councillor training and professional development are adequately funded.

The question was put.

The Committee divided.

Ayes (5)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Purcell	

The question was agreed.

Dr Mansfield moved that the following recommendation be inserted in Chapter 7, section 7.2:

That the Victorian Government review the Local Government Act to determine whether legislative changes to CEO functions and other relevant parts of the Act are required to support shared service models between councils

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Dr Mansfield	Ms Terpstra
Mr Berger	Mr Mulholland
Mr Galea	Ms Broad
Ms Purcell	Mr Davis
	Ms Deeming

The question was negatived.

Ms Broad moved that the following recommendation in Chapter 7, section 7.2, be omitted:

That the Victorian Government review the *Municipal Association Act 1907* to ensure it remains fit for purpose and reflects the full scope of the Municipal Association of Victoria's contemporary responsibilities.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Ms Deeming	Ms Purcell
	Dr Mansfield

The question was negatived.

Mr Galea moved that the following recommendation be inserted in Chapter 7, section 7.2:

The Government Reviews the financial position of small rural councils and how to support their financial sustainability.

The question was put.

The Committee divided.

Ayes (4)	Noes (5)
Ms Purcell	Ms Terpstra
Mr Galea	Mr Mulholland
Mr Berger	Ms Broad
Dr Mansfield	Mr Davis
	Ms Deeming

The question was negatived.

Mr Mulholland moved, that the Draft Report (Chapters 1 to 7, including 47 Findings and 48 Recommendations, together with Appendices A, B and C), be adopted as the Report of the Committee, and that it be Tabled on 28 November 2024.

The Committee divided.

Ayes (5)	Noes (3)
Mr Mulholland	Mr Galea
Ms Broad	Mr Berger
Mr Davis	Ms Terpstra
Dr Mansfield	
Ms Purcell	

The question was agreed.

Minority reports

VICTORIAN GREENS' MINORITY REPORT

Economy and Infrastructure Committee - Inquiry into Local Government Funding

Authored by Sarah Mansfield MLC

1. Introduction

Local government is the closest level of government to the people, and plays a critical role in supporting their local communities through the provision of key infrastructure and services, planning, and local employment opportunities. The diversity of community needs and preferences is reflected in the mix of activities and priorities of councils across the state.

This inquiry comes at a time when Victorians are experiencing significant cost of living and housing pressures, making the need for accessible community services and infrastructure provided by local government all the more critical. It also comes at a time when many councils are facing substantially growing costs related to climate change.

In other jurisdictions, including in NSW and in the UK, we can see the impacts that chronic structural funding shortfalls have on the capacity of councils to operate effectively and ultimately, to serve their communities, and we are starting to see signs of the similar problems in Victoria.

Communities and other levels of government are left to pick up the pieces when local governments fail, so it is in everyone's interests to avoid this occurring. By addressing the issues identified in this inquiry, the Victorian Government has the opportunity to shift the trajectory of local government in this state, so we too don't end up with non-viable councils.

I would like to thank all the members of the public, councils, and organisations who made submissions, those presented to the committee, and those that hosted hearings in different parts of the state. As always, I would also like to thank the excellent committee staff for their tireless work.

While I largely support the majority report from this inquiry, I have prepared this brief minority report to:

1. Highlight evidence heard during the inquiry regarding the negative impact of rate capping and the case for abolishing rate capping
2. Highlight evidence regarding the challenges with state government grant programs and the need to allow councils greater autonomy and flexibility with respect to discharge of the funding
3. Identify the need for improved state government financial reporting with respect to the local government sector, and for concerted efforts to establish stronger state-local government relationships
4. Ensure that evidence relating to the substantial impact of climate change on the finances of councils is recognised and acted upon
5. Other miscellaneous findings and recommendations

2. Rate capping

Chapter 4 of the majority report outlines some of the evidence heard regarding rate capping. It was clear that for most councils and local government representative bodies, rate capping

has substantially limited the ability of councils to plan and respond to local community needs, and is amongst the top concerns for councils:

*"When we did the survey of our members, the sort of response we received from them is that none of them were in an excellent financial position. About half said their financial position was average, while a further quarter said their situation was poor, and over half of our members responded to that survey. They also indicated that basically councils cannot be expected to continue with underlying deficits without a deterioration in cash and/or infrastructure... What we are seeing is that increased expenditure, demands for infrastructure and limited revenue sources are amongst the top three funding challenges for local government. The top one was rate capping."*¹

Many submitters recognised that the current state government is committed to the policy of rate capping, and therefore made recommendations about how the system could be improved to better reflect the actual costs borne by councils, *provided other financial constraints including cost-shifting and grant funding were also addressed*. This does not mean that rate capping is the preferred policy for the local government sector.

As highlighted in the majority report, rates make up a substantial proportion of revenue for councils. While the rationale for introducing the rate cap has been to limit rate increases for ratepayers, the application in practice has left many ratepayers experiencing rate increases well above the rate cap². This has particularly been the case for farmers and rural property owners in some council areas due to the way councils have administered differential rates.

Although the majority report notes that the rate capping policy has broad community support, this is often based on the false assumption that the rate cap will apply to each individual rate payer. As we heard through the hearings, residents who experience a rate increase substantially higher than the cap are often shocked upon receiving their rates notices, not realising that the rate cap is an average across the municipality and will vary on an individual basis.

Additionally, rate capping's effect of reducing the ability of Victorian councils to provide the infrastructure and services required by their communities has in turn led to reduced satisfaction with councils, and potentially reduced service provision to those who most need it.

*"Since the introduction of rate capping there has been an overall decline in community satisfaction. Community satisfaction is lower across rural and regional councils as a cohort than metropolitan ones, which mirrors financial capacity. The lowest satisfaction area state-wide is unsealed roads, an area influenced disproportionately by rural shires under the most financial strain."*³

¹ Mary-Anne Brown, Rural Councils Victoria, hearing Melbourne 26th June, transcript p50

² Gerard Brody, Commissioner and Chairperson Essential Services Commission, Melbourne hearing 8th October 2024, transcript p26

³ Municipal Association of Victoria, submission No. 105, p61

*"Ironically, more vulnerable residents and those experiencing financial hardship depend most on council services and programs. An approach to rate capping that does not recognise the value of council services does more harm than good to this group."*⁴

Although rate capping was recognised as a major contributor to the decline in financial sustainability of local government, giving councils autonomy over setting rates was not viewed as a panacea for the financial challenges councils are facing.⁵ It is important to recognise that the rate cap has been in place at the same time as cost-shifting has worsened, as outlined in Chapter 6 of the majority report. As outlined in Chapter 5 of the majority report, grant funding is also inadequate, unpredictable, administratively burdensome, and there is inequity across councils in terms of their ability to access grant funding. This has created the perfect financial storm for councils, whereby they are unable to make up for shortfalls in funding created by other challenges to the sector.

The impact of long-term rate capping can be seen in NSW, where asset maintenance and renewal has fallen behind to such an extent that critical assets are now failing, and where some councils are applying for substantial rate cap variations.

*"New South Wales has had rate capping a lot longer and has a number of councils, particularly in rural areas, which are in really bad financial straits because of the compounding impacts of that. There is only so much that you can hide the impacts of in a council budget."*⁶

*"In New South Wales over the last three or four years we have seen multiple rate cap applications and for massive percentages. We are not talking 1 or 2 or 3 per cent. You are talking rate cap variations in New South Wales of 40, 50, 60, 70 per cent to fix that infrastructure because New South Wales did not look at how they could fix things in the short and medium term. I suppose that is really our ask to the committee: let us not repeat some of the mistakes that appear to have been made to the north of us, and let us see if we can work better together now to fix some of those things. We do not want 30, 40 and 50 per cent rate caps in years to come."*⁷

⁴ Kathryn Arndt, Victorian Local Government Association, hearing Melbourne 26th June 2024, transcript p27

⁵ Kat Panjari, Director Strategic Foresight and Partnership Municipal Association of Victoria, Melbourne hearing 26th June 2024, transcript p15

⁶ Emlyn Bresse, Municipal Association of Victoria, Melbourne hearing 26th June 2024, transcript p22

⁷ Bradley Thomas, FinPro, Melbourne hearing 26th June 2024, transcript p43

We also heard about the UK experience, where rate capping has been in place for a lot longer, being introduced in 1989 under the Thatcher government. Councils are starting to fail, largely as the result of the cumulative impact of declining funding in a rate capped environment.

*"We have seen, cumulatively, evidence in the UK of what the end point is, in my opinion, of crude rate capping. It may seem like a superficial comment, but try and find a public toilet in a municipality in the UK and not pay for it. Try and find a well-kept public park to the standard that you see in Victoria at the moment. The roads – whilst obviously potholes and various other points are a consistent theme of local government, be careful what you ask for, because to be blunt, when you are driving around many places in the UK, the roads are nowhere near the standard of the roads that you see in Victoria. That, I believe, is a direct impact of the introduction and maintenance of rate capping over many years. The end point for that of course is you see the largest local authority in Europe, with a budget of over £2billion a year, Birmingham City Council, facing massive financial challenges to a point that it can no longer function effectively. They are the first among a long line of local authorities in the UK that over many years have experienced death by a thousand cuts."*⁸

Many councils acknowledged that their ability to raise rates substantially would be limited by people's capacity to pay in any instance, and that they were sensitive to the financial means of their constituents. Importantly, a rate cap also disenfranchises the community by assuming that ratepayers are unwilling to pay more even if it would mean an improvement in local services and infrastructure⁹.

*"The rate cap policy is a blunt tool that does not adequately address the complex issues of council financing, including unfunded infrastructure renewal upgrades, cost shifting from other tiers of government and the limited options for self-financing by councils, particularly in rural areas. The rate-capping policy was intended to stop councils from unrestrained rate rises, which was accomplished many years ago. There is also a question about people's ability to pay. It is time to update this policy to either remove the cap or expand the discretion councils have to set rates, provided they have strong and accessible financial hardship policies in place."*¹⁰

When determining taxes, state and federal governments aren't constrained by a cap. But they obviously must take account of community willingness and capacity to pay, and the services and infrastructure required by the community - and are acutely electorally sensitive to this. As an independent, democratically elected level of government, local governments should be afforded the same autonomy.

⁸ John Barker, CEO Mornington Shire Council, Frankston hearing 25th September, transcript p5

⁹ Matt Hyde, Chief Executive Officer, Wodonga City Council, Traralgon hearing, 4th September 2024, transcript p52

¹⁰ Kathryn Arndt, Victorian Local Government Association, hearing Melbourne 26th June 2024, transcript p27

NEW RECOMMENDATION: That the Victorian Government abolish rate capping and enable councils together with their communities to set rates according to local needs and preferences, while requiring councils to have adequate hardship policies in place.

3. Grants

The majority report makes a range of recommendations regarding grants that I largely support. However, based on the evidence received, some of these did not adequately address the concerns raised.

As is illustrated in the majority report, it was clear from the evidence provided by the local government sector that despite an increasing reliance on grant funding to support the activities of councils, this funding was not always easy to obtain or discharge.

Smaller councils in particular had to dedicate relatively greater resources to applying for grants, which typically had onerous requirements - often with no guarantee of success. Conditions associated with most grants limited councils' ability to use discretion to ensure the funds were being used to best meet community needs - and the discussion in the majority report regarding the overwhelming preference for untied grants reflects this.

We also heard evidence regarding the time-limited nature of grants (usually once off rather than multiyear), which creates limited capacity to plan, particularly with respect to service delivery.

*"...councils are obligated to develop 10-year financial plans, and we have to include assumptions around grant funding in those. However, grant funding agreements do not last for that duration and often are year to year so that we live hand to mouth. So the recommendations there are for a commitment to implementing multiyear funding agreements for recurrent grants to give councils greater certainty so they are not left out of pocket and so they have the ability to plan service change better; and as per the rates recommendation, to commit to increasing recurrent grants based on an appropriate indexation amount for the services which they fund to ensure that grants as a minimum do not decrease in real terms."*¹¹

Grants also generally fund new assets, and fail to take account of the whole-of-life of an asset, or renewal of old assets.

¹¹ Sarah Brindley, Director, Corporate and Leisure, Wangaratta Rural City Council, Traralgon hearing, 4th September 2024, transcript p46

*"Like other small councils in our area, we have old swimming pools at the end of their asset lives. These are the very basic 25-metre open pools, possibly with a shade cloth, that provide much relief during hot summers. They require renewal possibly costing \$3 million or \$4 million, money that we do not have and money that is not available in the grants program. This inequity highlights the need for a funding program that prioritises the renewal and maintenance of essential infrastructure. Small rural councils require sufficient support to maintain critical services and ensure the sustainability of their communities."*¹²

Some councils reported receiving grants for assets that were then very costly to maintain and operate, which was particularly challenging when the asset wasn't necessarily the top priority for that council area.

*"The grant funding tends to favour, as has been mentioned, infrastructure for new and shiny things. What that leads to actually compounds that issue around the ageing infrastructure and that growing renewal gap for us, because it leads to a greater portfolio of assets to manage on different cycles."*¹³

NEW RECOMMENDATION: That all local government grant programs administered by the state be reviewed and where possible, made:

- a) untied**
- b) multiyear**
- c) considerate of the whole-of-life of assets, including asset maintenance and renewal**

4. Financial reporting and the relationship between state and local government

The evidence received from councils and peak representative bodies regarding the financial sustainability of local government painted a dire and urgent picture, which stood in stark contrast to that received from Local Government Victoria (such as the Victorian Auditor General Annual Reports) which instead found councils to be in good financial health.

The overwhelming body of evidence from councils and representative bodies was that councils are facing major structural financial challenges that they have limited capacity to address on their own. Some councils are already having to reduce the services they provide

¹² Livia Bonazzi, CEO Murrindindi Shire Council, Broadmeadows hearing 19th September 2024 - transcript p15

¹³ Adele Drago-Stevens, Director, Corporate Services, Macedon Ranges Shire Council, Bendigo hearing, 21st August 2024, transcript p60

and limit investment in new infrastructure as well as asset maintenance and renewal, to the detriment of their local communities.

"I think the talk that I am hearing now is just, 'How many years before we're in the managed decline state', and we are already there, so we are working at it from now. Other councils have some years or maybe even a decade, if they are lucky, but we are already there." ¹⁴

"The current funding models are outdated, inequitable and unsuited to the realities that we face in rural Victoria. Murrindindi Shire Council is not viable, let alone allowed to thrive, under these conditions. We are not alone – the changes that we seek will not only support our community today but will build a more sustainable future for all rural councils." ¹⁵

Part of the explanation for the mismatch in what we heard from state government entities and local government is that the metrics being used to assess council's financial health are not appropriate.

"One of the ones that we think is really important in terms of really accurate reporting and accurate understanding of the financial picture: we would make a position that the current reporting framework does not provide that to state government to make informed decisions around the financial sustainability of local government and we would push for a co-design working with the sector in terms of establishing a riskbased assessment framework for financial sustainability, and not a one-size-fits-all – how does it work across all the council cohorts? It has been successfully undertaken in a number of other states." ¹⁶

NEW FINDING: That the Victorian Government's current measurements of local government financial health do not accurately reflect their true financial position, which is worse than reported by state government entities.

NEW RECOMMENDATION: That the Victorian Government work with the local government sector to develop agreed upon metrics against which to report on the financial health of local government.

The failure to develop an agreed upon financial reporting framework by the state government reflects a deeper failure to consider the local government to be a 'trusted partner' and be given 'a seat at the table' when it comes to decision-making about issues that will impact councils or their communities.

¹⁴ Carol Jeffs, CEO Cardinia Shire Council, Frankston Hearing 25th September 2024 - transcript p28

¹⁵ Livia Bonazzi, CEO Murrindindi Shire Council, Broadmeadows hearing 19th September 2024 - transcript p13

¹⁶ Bradley Thomas, FinPro, Melbourne hearing 26th June 2024, transcript p38

*"The local government sector should be a trusted partner for the Victorian Government; however open communication, consultation and engagement has been lacking in recent times."*¹⁷

*"At a high level I believe that the relationship between the state and the sector in Victoria is – if I wanted to define it crudely, it is almost a parent–child relationship that we have with the state at the moment, where the state decides what we are going to get, how we are going to implement it and what it is going to look and feel like. There is not very much opportunity for us to feed back in the way I would expect to see a peer-to-peer relationship managed. I do believe that collaboration could be greatly improved between the state and the sector broadly."*¹⁸

NEW FINDING: That the local government sector is not currently adequately consulted or included by the Victorian Government in key decisions that affect councils or the communities they serve.

NEW RECOMMENDATION: That the Victorian Government ensures that the local government sector has appropriate representation on department reference groups, stakeholder forums and steering committees, and is a key point of contact across relevant government portfolios.

5. The impact of climate change on financial sustainability of councils

It was disappointing that the majority report failed to adequately capture the substantial evidence received, both in submissions and in the hearings, regarding the financial impact of climate change on councils. While acknowledging that there is a concurrent inquiry underway looking at the issue of climate resilience of built infrastructure, the issue of climate change in terms of the financial challenges it presents for councils is both broader than just built infrastructure, and is directly relevant to this inquiry. The impacts of climate change are pervasive, and as such, should be considered in all contexts where relevant, not just confined to inquiries where the primary focus is climate change itself.

The impact of climate change on councils came up in several contexts, including:

- Additional challenges for asset management, particularly maintenance and repair, the costs of which many councils are already struggling to manage

¹⁷ Melbourne 9 (M90), submission No. 70, p2

¹⁸ John Barker, CEO Mornington Shire Council, Frankston hearing 25th September, transcript p6

- Failure to include betterment as part of grant funding
- Difficulty in accessing disaster recovery funding, particularly for councils that are subjected to repeated weather-related disasters
- Costs of providing services to support people during extreme weather events such as heat waves
- Costs of insurance and financial impacts resulting from a failure to integrate science into planning decisions

*"All of our assets and all the assets that I mentioned before will be impacted by climate change. We have done some really terrific modelling around that, and again, whilst we have not got a figure of what that is going to cost necessarily embedded within our budget, we know that we are already going to get an uptick in things like, as I mentioned before, our roads and what they will cost to maintain. So the added component of climate change impact is expected to exponentially increase that too."*¹⁹

*"There are challenges in the asset management space, particularly with climate change. We have estimated that if we are to maintain our assets, climate change over the next 10 years will add between \$5 million and \$9 million. I do not think we put that in the submission; we did a general number. That might seem like a small number, but when you think of our overall capital works, it is a 10 to 15 per cent increase in our costs just based on dealing with climate change issues. Brimbank is also the hottest place in Melbourne, so that heat island effect particularly magnifies when you think about the socio-economic disadvantage and people dealing with that. That adds some pressure as to how we deal with that as well."*²⁰

NEW FINDING: Climate change poses a substantial and growing challenge to local government finances.

Many councils identified that they are already facing additional costs related to extreme weather events, and are frustrated at the lack of appropriate funding systems to support their responses to these events.

"Many local governments that responded to the pandemic, to floods and to fire just have not recovered financially since having to deal with those. Because local governments are so agile, they do respond very quickly when needed and do that off their own books, if you like, before the funding comes through from either the state or the Commonwealth. In many

¹⁹ Greg Box, Chief Executive Officer, Bass Coast Shire Council, Traralgon hearing 4th September 2024, transcript p4

²⁰ Mark Stoermer, CEO Brimbank Council, Broadmeadows hearing 19th September, transcript p3

cases that was not equalised, so those local governments are still carrying the burden and have not recovered.”²¹

While the majority report recommended that betterment be included as part of disaster recovery funding, the extent to which Victoria is behind other jurisdictions when it comes to investment in betterment wasn't fully reflected.

“The betterment funding in Victoria is about a tenth of what it is in other states, so it is very low. I know each government has to weigh up what its priorities are and where the funds go, but without the betterment funding it is hard to catch up for individuals as well as councils.”²²

NEW FINDING: The Victorian Government spends substantially less on betterment than other Australian jurisdictions.

NEW RECOMMENDATION: That the Victorian Government ensure that betterment is considered in all infrastructure funding and disaster recovery funding it provides to local government.

While betterment funding supports strengthening of infrastructure that is being replaced or repaired, helping councils communities to better withstand the impacts (including economic impacts) of climate change requires proactive investment. This may be in infrastructure, but may also be in services and other supports. Given the varied nature of impacts of climate change on different councils and communities, the need for more funding to support climate resilience initiatives that respond to local circumstances was identified²³.

NEW RECOMMENDATION: That the Victorian Government, in consultation with the local government sector, establish a local government climate resilience fund.

6. Other miscellaneous findings and recommendations

Circular economy

²¹ Kat Panjari, Director Strategic Foresight and Partnership, Municipal Association of Victoria, Melbourne hearing 26th June 2024, transcript p20

²² Celia Haddock, CEO Maribyrnong Council and also representing M9, Melbourne hearing 8th October 2024 transcript p54

²³ Municipal Association of Victoria, submission No. 105, p51

Many councils and peak bodies expressed frustration at the failure of investment in genuine circular economy initiatives by the Victorian Government, despite a substantial growth in the waste levy charged to residents and paid by councils to the state government. Some of the waste levy goes to the Sustainability Fund, which is meant to support circular economy initiatives, but councils noted that relatively little of the fund has been spent. By reinvesting more of these funds into circular economy measures, this could in turn reduce the costs to residents with respect to waste management, in turn reducing waste-related costs for councils, as well as having obvious environmental benefits.

"But the ability for things like the waste levy, which has been accumulating within the state for many years – and I know there is a strong debate that exists within local government calling for some of those funds to be released for the implementation of things like the circular economy transformation, like the four-bin system. Those funds have not been flowing in a way that would potentially contribute to better environmental outcomes but also minimise the amount of cost that needs to be passed through to our community, reducing some of the burden on our community, and provide the ability for us to fully recover or gain a significant amount of that funding to help fund future implementations." ²⁴

NEW RECOMMENDATION: That the Victorian Government, in consultation with the local government sector, reinvest more funding from the Sustainability Fund in circular economy initiatives.

Prescribed fees and fines

The committee heard that prescribed or statutory fees, set by the state government with respect to a range of services that councils are required to provide, do not adequately reflect the costs of delivering those services to individual councils, which can vary substantially depending on the local context. This represents another example of cost-shifting, and creates inequity across councils.

"In statutory planning, building services and environmental health services, our statutory fees do not represent true cost recovery, and there are increased compliance and monitoring costs. It is the same with municipal building surveyors, where we have difficulty in recruiting qualified building surveyors and compliance makes service delivery very difficult or impossible to deliver." ²⁵

²⁴ Aaron van Egmond, Chief Executive Officer Hobsons Bay City Council, Cobblebank hearing 7th October 2024, transcript p19

²⁵ Cr Stuart King, Mayor Swan Hill Rural City Council, Camperdown hearing, 7th August 2024, transcript p2

*"In prescribing fees and fines the Victorian Government often errs on the side of simplicity, setting a single amount across council types and categorising tiers of fee within the same category quite broadly. When considering cost recovery the approach is often to look at median costs across councils or a level where some majority of councils might achieve cost recovery. This means that many prescribed fees are set at a level where cost recovery is not possible for a portion of councils. In many cases cost drivers are common across different functions, so a council that faces high costs of delivering building regulation may also have high relative costs for regulating food safety."*²⁶

NEW RECOMMENDATION: That the Victorian Government conduct a review of prescribed local government fees and fines to ensure they reflect the actual costs to individual councils.

Signed:



Dr Sarah Mansfield MLC

²⁶ Municipal Association of Victoria, submission No. 105, p38

Minority Report

Introduction

Councils who contributed to this inquiry should be commended for their investment of time and evidence provided. Many Councils provided important evidence about the community services they provide – not only rates, roads, and rubbish. The care and concern for local communities shone through and many witnesses reported with pride the role that Councils play in their communities, especially in times of need, like when severe weather events hit.

Many councils reported facing challenges in their communities, such as climate change, homelessness, disadvantage, and cost of living pressures, but services such as libraries were seen as an important place for councils to demonstrate their commitment to diversity and inclusion. Councils should be commended for that.

Issues

There were many challenges facing the sector. Below is a high-level overview of how the sector was responding:

Federal Financial Assistance Grants

Many Councils commented that the biggest challenge to the sector was the Liberal Federal Government freezing federal Financial Assistance Grants between 2014 and 2017. This has had ongoing and deep impacts to the sector which are still reverberating today.

Financial position of the sector remains sound

The [VAGO report](#) into Local Government – result of 2022-2023 Audits: Local Government (tabled 7 March 2024) found that the sector is financially viable. VAGO found, amongst other things:

- Councils had yet to streamline their financial reports, despite VAGO recommendations and LGV allowing for the removal of disclosures. This was a missed opportunity to save time and costs;
- Errors in financial reporting increased, finding that quality assurances processes need to improve;
- Whilst rates remain the largest source of revenue for the sector, Government grants are the second highest revenue stream for the sector and grant funding continued to increase;
- The sector's financial position remains sound, with low debt levels;
- For several reasons, Councils' cash and financial assets increased by 4.7%. Other financial assets included term-deposits.

Labour shortages and challenges

Councils can address skilled staff shortages and should ensure they streamline bargaining with staff and their unions to deliver appropriate wages outcomes. Councils should also look to embracing more flexible work arrangements, including hybrid and/or remote arrangements to remain competitive in the marketplace.

There are missed opportunities to reduce costs and duplication of administrative services by councils exploring partnership opportunities – whether that be in IT platforms, using economies of scale or other mutually beneficial partnership opportunities that reduce duplication.

Executive salaries

Councils should not offer high executive salaries and then complain about lack of funding. Some CEO salaries are out of pace with community expectations.

Revenue - rate cap, developer contributions

Councils reported that whilst the rate cap remains challenging, the mechanism for councils to ask for an increase in the cap remains underutilized.

Recent changes in State Government policy on the use of developer contributions in growth areas was not examined in detail, and this new policy initiative will alleviate some pressures on councils to look for funding of local/community/social infrastructure.

Roads

The point was well made that many smaller, rural and remote councils face challenges in maintaining their road asset bases. These councils do not have the same capacity to access funding for a variety of reasons.

Climate change also means that Councils are being exposed to more severe weather events. Whilst councils commented that some grant funding programs need to 'build back better', this misses the point that some roads may have been built in the wrong place. Flood mapping will help identify any increased risk to these assets. Councils would be well served to undertake a more holistic overview of the risks and challenges in their road infrastructure to understand this challenge more fulsomely.

Former programs such as the Country Roads and Bridges Fund was viewed favourably by many rural/remote councils and were seen as a viable option that should be renewed to assist rural councils with this challenge.

Conclusion

Whilst the sector is facing challenges, the inquiry revealed that there is still work to do for Councils to improve their own respective positions.

Once again, I thank the sector and individual Councils for making submissions to this inquiry.

Sonja Terpstra

Member for North-Eastern Metropolitan Region



INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES: MINORITY REPORT

LIBERALS AND NATIONALS

November 2024



David Davis
Liberal Party



Bev McArthur
Liberal Party



Evan Mulholland
Liberal Party



Gaelle Broad
The Nationals



Richard Welch
Liberal Party

Foreword by the Liberals and Nationals

The majority committee report provides valuable findings and recommendations on the challenges facing Victoria's local government sector. We, the Liberals and Nationals, broadly support the report's findings and recommendations and acknowledge the important work done to highlight the ongoing issues within the system. However, there are several critical issues that we believe have not been adequately addressed, which is why we have felt compelled to submit this minority report.

This report will focus on rates paid by renewable energy facilities, the Fire Services Levy and the renewable energy facilities rating scheme, developer contributions and growing suburbs, and the need to review the *Aboriginal Heritage Act* and cultural heritage management plan processes. While these issues are referenced in the majority committee report, we believe they require further consideration and action to ensure a fair and financially sustainable local government system that does not disproportionately impact certain communities, ratepayers and sectors.

The committee conducted eight days of hearings, gathering input from councils, ratepayer advocacy groups, individual ratepayers, and farmers. One key issue left unresolved in the majority committee report is the lack of a clear definition of local government core responsibilities. The Liberals and Nationals are committed to addressing this issue when in government.

The concerns outlined in this report reflect broader systemic challenges facing local governments as they manage increasing responsibilities with limited resources, compounded by cost shifting from state and federal governments onto local government. This minority report reinforces the urgent need for the Victorian Government to action the committee's findings and recommendations to alleviate undue burdens on councils, communities and ratepayers.

Payments in lieu of rates scheme (PiLoR)

The payment in lieu of rates (PiLoR) framework, established under Section 94 of the *Electricity Industry Act 2000*, allows electricity generators to negotiate payments directly with local councils, bypassing the usual rate-setting process¹. This creates a system where large-scale energy producers can exert influence over the amount they contribute to local services. By enabling private entities to negotiate payments, the framework creates a disparity in how resources are allocated, leaving local communities and ratepayers to bear a disproportionate burden. This arrangement also fails to ensure that all sectors, particularly renewable energy facilities, are contributing fairly to local infrastructure and services, particularly when they benefit significantly from these resources.

During a public hearing, Alexandra Matthews from Wallaloo and Gre Gre District Alliance said:

Payments in lieu of rates schemes we think should be reviewed just to make sure that these renewable and transmission companies are not getting a free ride. It is not up to council and state to make regional Victoria a good investment for RE [renewable energy] companies; they should be there to advocate for their communities. The fire services levy should not have been overcharged to us; again, that should go to the RE [renewable energy] companies. It is not our responsibility to make it easy for them to set up shop, essentially².

FINDING 1: The existing Payments in Lieu of Rates (PiLoR) system permits renewable energy facilities to bypass their rightful contributions to local infrastructure and services, unfairly imposing the financial strain on local communities and ratepayers.

RECOMMENDATION 1: Renewable energy facilities should pay the full applicable rate charges to ensure they contribute equitably to the costs of local infrastructure and services and support the financial stability of local governments.

¹ Victorian Government, Energy, Environment and Climate Action website. [Payment in lieu of rates for electricity generators](#)

² Wallaloo and Gre Gre District Alliance public hearing, Bendigo, 21 August 2024, Transcript of evidence, page 7.

Fire Services Levy and renewable energy facilities rating scheme

The Fire Services Property Levy is a Victorian Government tax to fund the state's fire services. This levy supports both Fire Rescue Victoria and the Country Fire Authority (CFA), with councils collecting the levy on behalf of the Victorian Government.

The financial arrangements for the Fire Services Property Levy place an unfair burden on communities hosting renewable energy facilities. Despite significantly increasing the fire risk, these facilities are charged the subsidised public benefit rate, the same as what is charged to hospitals, schools, libraries and fire stations. This shifts the financial responsibility onto farmers and regional ratepayers, many of whom already volunteer in their local CFA brigades while paying the full levy amount on their own properties.

Witnesses expressed outrage to the committee over the inequity, arguing renewable energy facilities, given their significant fire risk, should contribute more fairly to local fire services and infrastructure.

Wallaloo and Gre Gre District Alliance submission states:

The Fire Services Levy cannot be overcharged to farmers (80% increase) as is the current situation, with most of this increased revenue going to the city and then renewable energy and transmission companies given subsidized rates. This renewable infrastructure directly causes excessive fire risk in the high fire danger area of central Victoria³.

Marcia McIntyre from Wallaloo and Gre Gre District Alliance said during a public hearing:

Basically the amount that they have been charged has been significantly reduced while it has been put up on the farmers, who are actually already the volunteers doing the work. It is a ridiculous situation considering the fire risk involved both by starting and also fighting around these renewable energy transmission lines⁴.

RECOMMENDATION 2: Renewable energy facilities should be classified under the industrial fire services property levy based on its operations' capital improved value, not the public benefit rate, to help fund the CFA and Fire Rescue Victoria, and should be required to pay the full Fire Services Levy.

³ Wallaloo and Gre Gre District Alliance submission, page 4.

⁴ Wallaloo and Gre Gre District Alliance public hearing, Bendigo, 21 August 2024, Transcript of evidence, page 7.

Developer contributions and growing suburbs

Timely payment of infrastructure contributions to councils are a real problem to address. Several witnesses acknowledged the stress of infrastructure delivery, and the timing of infrastructure not keeping pace with growth.

This was stressed by Troy Edwards from the City of Greater Geelong.

Yes, again, it is a terrific question and a complex topic. I think with 11 precinct structure plans and significant growth slated through both the government's recent announcements on housing targets and our own projections, it does create a lot of timing pressures for the city to work with developers and the state to make sure infrastructure comes online. I think some greater certainty around timing would be important. Probably the big risk that comes through here is developers clearly work to make sure that their developer contributions are paid early. Once they are in our bank accounts, then pretty much they are free, and it is our job to manage that. When interest rates on that money are running at maybe half of what the cost escalations are, that creates significant future risks for us to deliver that infrastructure. That is where I think there are opportunities for state and local government to explore ways to minimise that gap and ensure that when it comes time to deliver that infrastructure we have got as close to 100 per cent of what was originally costed and delivered⁵.

Brett Luxford, CEO of Mitchell Shire Council agreed:

Grant funding in this space is rapidly dwindling. I think we all face that as a challenge, and we all go into a competitive pool of funds to try to get funding for each of our respective communities, which really is not fair in that space. So what I guess that means is that we are seeing less funding coming through and more and more costs going onto councils to deliver results and councils being squeezed and able to provide less and less for our communities. I guess we feel like the growth areas – and Mitchell shire is one of those growth areas – are being forgotten. As more and more people move into those areas, they have a level of expectation of what they expect to have, some of the basics, and some would not be able to provide some of the basics. Beveridge is a great example. We have got around about 7000 to 8000 people living in the Beveridge area. There is no sporting infrastructure; there are no shops down there at this stage. They have to jump back onto the Hume Highway to go back up to Wallan to access services or down to Kalkallo or further. I guess we feel that the risks are not superficial or imaginary. They are real at the moment for a lot of communities, particularly our community.

Our submission highlighted a range of key challenges that are needed. For us I think some of the key ones are reforming developer contributions to ensure that they

⁵ City of Greater Geelong public hearing, Camperdown, 7 August 2024, Transcript of evidence, page 25.

*adequately cover the cost of infrastructure; providing targeted grants, particularly in those growth areas as the communities grow and develop – with housing targets there needs to be the support to meet those housing targets with infrastructure in those areas – and I guess also mandating some of the consideration of the impact of state government policy on local government*⁶.

Hume City Council also supported this:

*We think with works in kind we could be streamlining that system in order to make it easier to access. It depends on the case-by-case basis. Certainly we have had very good experiences with works in kind. Where you have reputable developers you are working with who have perhaps large land holdings, it makes perfect sense that if they have the capacity and equipment and services already on the ground, they could get started doing work earlier than we can if we are going through our own processes. We have found that has worked well. We think it is something that can be reviewed as a whole, and that is why we would say it is not just looking at one element of the system, it is looking at a whole system for opportunities for how you perhaps could be using the same amount of resources but spreading them and using them differently*⁷.

Municipal Association of Victoria also said:

*We will also call for an overhaul of the infrastructure contribution mechanisms to ensure that they are fit for purpose and provide councils with the ability to deliver infrastructure that meets the expectations of Victorian communities in a timely manner. We know that that is a difficult nut to crack, but we really seek the committee's support to attempt to do that*⁸.

Stephen Wall, Chief Executive Officer of Wyndham City Council said:

One of the major successes of the interface group of councils, now the Outer Melbourne Councils group, was the Growing Suburbs Fund. It was a big advocacy pitch where government acknowledged that there was a different cost pressure on growth councils and so this funding stream was developed: \$50 million that was shared amongst 10 councils. We all rejoiced. It was great. \$5 million is not an insignificant amount of money per council, and over the number of years in the order of \$440 million of additional funding went into growth councils. In the last two budget years we saw it reduced from \$50 million to \$10 million; \$10 million amongst 10 councils is not a lot. Then in this

⁶ Mitchell Shire Council public hearing, Bendigo, 21 August 2024, Transcript of evidence, pages 42-43.

⁷ Hume City Council public hearing, Broadmeadows, 19 September 2024, Transcript of evidence, page 52.

⁸ Municipal Association of Victoria public hearing, Melbourne, 26 June 2024, Transcript of evidence, page 16.

current budget year we have seen it reduced by another \$5 million. It is hardly worth applying for⁹.

When asked why that is happening, given there is continued growth, Mr Wall responded:

I cannot speak on behalf of government, but clearly it is an austerity measure. It is a savings pitch. I mean, the demand has not dropped; in fact the demand is still absolutely there. We would have been hoping that it was indexed and ongoing. Revitalisation boards: I think one of the biggest challenges with a brand new suburb – brand new cities that were a paddock not that long ago – is the way you develop a community. We loved the revitalisation funding and approach and again really commended the state government for introducing that. It was a way of bringing together state and local government with community leaders to establish brand new communities. The money was not huge, it was not excessive, but it was really valuable money that went into developing communities. The Tarneit revitalisation board had some great successes with various initiatives and events that came through the revitalisation board with strong community representation, and they are starting to really develop an amazing community in a brand new suburb. The suburb of Tarneit will have 160,000 residents by the time it is fully constructed, which will make it one of the largest suburbs in greater Melbourne. I think there are lost opportunities when those funding streams dry up. But again, I can only suggest that it has been about cost savings from the state's perspective¹⁰.

Derek Madden from Peri Urban Councils Victoria said:

We need to set up a framework for the development contribution plans within the regional areas. Definitely we need to revise how revenue is generated for councils. We are either becoming overly dependent on rates or we are becoming overly dependent on government grants, and when we are overly dependent on government grants, forward planning is very, very difficult. A really good example was that the peri-urban group of councils did have access to the Growing Suburbs Fund for a period of three to four years. We were advocating for that to be extended for five years to allow us to do future planning, and it was actually removed completely... It has gone down significantly, but we did benefit from that period when we were in it. As a council we were able to deliver some really important infrastructure into the community on the basis of that funding¹¹.

FINDING 2: The Allan Labor Government has cut funding for the Growing Suburbs Fund from \$50 million to just \$5 million.

⁹ Wyndham City Council public hearing, Cobblebank, 7 October 2024, Transcript of evidence, page 6.

¹⁰ Wyndham City Council public hearing, Cobblebank, 7 October 2024, Transcript of evidence, page 6.

¹¹ Peri Urban Councils Victoria public hearing, Cobblebank, 7 October 2024, Transcript of evidence, page 24.

FINDING 3: Infrastructure is not being delivered in a timely manner to growing council areas.

RECOMMENDATION 3: The Victorian Government should conduct a review of developer contributions to grow the use of in-kind agreements to assist councils with the timely delivery of infrastructure.

Cultural Heritage

The cultural heritage plan assessment process in Victoria presents significant challenges to local government financial sustainability, critical infrastructure upgrades, and developments projects. The current system has become an unregulated, expensive, and overly complex burden on councils and developers. Stakeholder testimony highlights the need for clearer, more efficient, and fairer cultural heritage regulations. The gap between legislative intent and practical outcomes is evident, as rising costs associated with cultural heritage processes are halting essential housing and infrastructure projects, including those put forward by Aboriginal Victorians. A review of the *Aboriginal Heritage Act* is necessary to clarify the definition of "undisturbed land," streamline assessment processes, and establish standardised fees for cultural heritage assessments.

Livia Bonazzi, CEO, Murrundindi Shire Council said:

Yes. Council had to replace a bridge because it was at the end of its life. The new alignment of the bridge, it was argued, was on undisturbed land so we needed to put in cultural heritage plans. The interpretation of undisturbed land seems to have changed throughout the years since 2006 when the Act came into place. Five, 10 years ago it was not so much of an issue. Now we hear that developers are walking out of developments because the cost of the cultural heritage plan is too high. Other councils as well are experiencing that, and it does not seem to be achieving the outcomes that are desired¹².

When asked how much it costs Murrindindi Shire Council, Ms Bonazzi said:

It depends on the scale of the project. We might have put an allocation of \$15,000, \$20,000 for the cultural heritage plan. It could be \$100,000, but with Mitchell Shire Council we hear it is just getting to the hundreds of thousands. Again, we do not have a lot of projects, but if we were, that price tag would totally go out. But we are experiencing concerns especially with housing developments that cannot proceed because of the

¹² Murrindindi Shire Council public hearing, Broadmeadows, 19 September 2024, Transcript of evidence, page 18.

cost. Ironically our own traditional owners have encountered exactly the same issue with their land. With their knowledge of what was culturally important, even they could not proceed with some social housing projects that they wanted to develop, because of the cost involved and the hurdles¹³.

When asked “where is this money going?”, Ms Bonazzi responded:

It certainly does not go to the Traditional Owners, and that is also an issue that potentially drives a wedge. This is one of the rare opportunities where council, developers, Traditional Owners and the community are all aligned in a desire to have more streamlined or better definitions of what undisturbed land actually means and having the traditional owners at the table, because they are certainly not getting the value. I do not know. I assume it is archaeologists or consultants. Certainly the money does not go back to the community¹⁴.

During a public hearing, Kirsten Alexander from Mansfield Shire Council said:

Under the Recognition and Settlement Act – and it is also connected to cultural heritage management – there are responsibilities that the Taungurung have and that landowners and managers like us have too to consult with one another. There are obligations that we both have. The Taungurung are highlighting, and I think quite reasonably, that they are having to engage in their area with 15 local governments and they are not resourced to do it. The impact of that is delays in projects, because if you cannot get some advice from the Taungurung up-front, it might mean that you are then relying on an archaeologist or someone like that, an adviser, that is going to cost you a lot of money. I have heard some horrific amounts from some of my fellow CEOs in terms of their cultural heritage management plans – how much they have had to pay. I think the Taungurung to a certain extent are getting caught in the crossfire here, because they have not got the resources and the people to engage. There is a requirement to engage. There is a requirement on us to engage. So they have come to local government saying, ‘Can you contribute as part of this forum towards the cost of’ – I think – ‘at least three resources.’ It adds up to around about a half a million dollars all up; I think that is what the ask is of local government. As I understand it, they have been funded as a one-off thing for one engagement officer from the Department of Premier and Cabinet – I might have that wrong, the department they are coming from – but beyond that there is no continuity for that funding. So they are looking for local government to fill that gap. If you work it out, half a million dollars between 15 different shires, depending on how it is

¹³ Murrindindi Shire Council public hearing, Broadmeadows, 19 September 2024, Transcript of evidence, page 18.

¹⁴ Murrindindi Shire Council public hearing, Broadmeadows, 19 September 2024, Transcript of evidence, page 18.

apportioned – there is no actual agreed way of doing it yet. That is still a bit of a work in progress, but it is somewhere in the order of around \$50,000¹⁵.

FINDING 4: Cultural heritage assessments are costly, time-consuming, and lack regulation, significantly impacting local governments by delaying projects and increasing financial and administrative burdens onto councils.

RECOMMENDATION 4: The Victorian Government should amend the *Aboriginal Heritage Act* and cultural heritage management processes to clarify the definition of "undisturbed land," implement standardised fees, introduce a right of appeal for landholders, and establish requirements for cultural heritage assessments to ensure greater transparency.

¹⁵ Mansfield Shire Council public hearing, Traralgon, 4 September 2024, Transcript of evidence, page 63.