

TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Local Government Funding and Services

Broadmeadows – Thursday 19 September 2024

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WITNESS

Mark Stoermer, Director, Corporate Services, Brimbank City Council.

The ACTING CHAIR (Evan Mulholland): I declare open the Legislative Council Economy and Infrastructure Committee's public hearing into local government funding and services. Please ensure all mobile phones have been switched to silent and that background noise is minimised.

I would like to welcome Mark Stoermer from Brimbank City Council and start by welcoming my colleagues. I will go around the table just to introduce everyone. My name is Evan Mulholland, a Member for Northern Metropolitan Region.

Gaelle BROAD: Hi, I am Gaelle Broad, Member for Northern Victoria.

Bev McARTHUR: Bev McArthur, Member for Western Victoria Region.

Tom McINTOSH: Tom McIntosh, Eastern Victoria Region.

Sarah MANSFIELD: Sarah Mansfield, Western Victoria Region.

David ETTERS HANK: David Ettershank, Western Metropolitan Region.

John BERGER: John Berger, Member for Southern Metro.

Sonja TERPSTRA: Sonja Terpstra, Member for North-Eastern Metropolitan Region.

The ACTING CHAIR: All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you may say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, can you please state your name and any organisation that you may be appearing on behalf of.

Mark STOERMER: Yes, thank you. Mark Stoermer. I am appearing on behalf of Brimbank City Council, and I am the Director of Corporate Services.

The ACTING CHAIR: Excellent. We would welcome you to make any opening remarks and keep them to a maximum of 10 to 15 minutes.

Mark STOERMER: Thank you very much, and thank you, committee members, for inviting me today to speak to you about the financial sustainability of the local government sector. I am going to start out with a little caveat, which is I know my accent sounds like I just got off the plane from LA, but I have actually been in Australia for 25 years and I have been in the local government sector for about 15 years. I have worked at the City of Melbourne. I have worked at large suburban councils and small rural councils in Queensland as well, so I have got a bit of a broad background into local government.

We have made a submission of course, and I am not going to go through that line by line, but I am going to make some general comments about financial sustainability in the sector. I am going to do that by briefly touching on the problem, which I think is actually well understood, some of the drivers of that problem and, really importantly, what we are doing to mitigate that, because I think the problem is well understood but sometimes we do not talk enough about the solutions that we as a local government are doing to address the problem. But then I am going to finish with what we would ask of government, of all of you.

To begin with, I think the problem statement is pretty clear: our expenses are growing at a significantly faster rate than our revenue sources. What this does over a 10-year period, when you forecast out, is we start to run deficits, and even when we turn that around our surpluses are very small. That has an impact on capital works. Our capital works spending over that period is projected to remain constant. That is not enough to address the growing needs of a growing population and to renew our assets. But in addition, our cash reserves drop to an unacceptable level. We projected this out over a 10-year period for Brimbank, and we have been very clear that the current state is unacceptable and we have to do something about that. That is what I will focus on in a few minutes.

Some of the drivers of this – and there are many; I am only going to touch on a few of the key ones. First of all, we all know about rate capping, and I do not think we would ever say that rate capping was a bad thing. We understand the reasons it was introduced, but over a 10-year period it has started to have a real impact. Of course this year inflation was running at 4 per cent and the rate cap was at 2.75 per cent. We have estimated that over the period of time that rate capping has been in place we have foregone about \$160 million in potential revenue from what we would have expected to receive versus what the rate cap was, so when I get to the ask part of this I will suggest possibly some ways to think about that.

Inflation is of course another key driver. Every organisation faces that. We often talk about CPI, but the fact is that in local government some of our costs do not really match CPI. This is particularly the case in capital works, and of course the state government would be familiar with the challenges in delivering infrastructure. Those infrastructure costs have gone up dramatically – so 30, 50, sometimes even 100 per cent – particularly in the road space. This is not just at Brimbank; this would be a sector-wide issue.

Cost shifting is a favourite topic, and I am sure that you get tired of hearing about us complaining about cost shifting. I group cost shifting into three major areas: diminishing funding or a change in the split of funding, so some of our libraries would be an example of that; changes to state or in some cases federal policy; or legislative changes. I have got all kinds of examples of that, and I can go into some detail if you are interested, time permitting. But I will just run through some examples. Certainly we cover school crossing guards. There have been changes to funding for libraries, changes to funding for maternal and child health, policy changes for kindergartens, changes to state policy in relation to waste, responsibility for social infrastructure, expenses related to the flammable cladding industry, and that is just a few of them. All of those issues are very important issues, and we would not be suggesting that those services should not be delivered. But I think the issue comes down to: how do we fund those to the full amount?

There are several Brimbank factors, and we outlined that in the submission. But I do want to just touch on those. We have one of the lowest socio-economic profiles in Victoria, and we are the second-lowest SEIFA index in the greater metropolitan area. We have a large disadvantaged community, and that places a number of pressures on our community services that we deliver. We have a number of mental health issues. We have one of the largest gambling problems in the state. I think these factors really emphasise the role of local government in providing services that help drive social cohesion. Oftentimes these services are not mandated, but they are absolutely critical to maintaining that social cohesion within a community.

We also have a very diverse community, and we think that is a huge strength, but that also comes with challenges in terms of how we communicate with multiple different groups. That of course adds to cost pressures as well. 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.

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.

Okay. Let us move on to what we are doing about this, because to be really blunt, and to potentially get the ire of some of my colleagues: I think we are very good as a sector at talking about the problem, but we oftentimes do not talk enough about the solution. I want to talk about what we are going to do and how the state government could help us in that, and I will do that at the end. There are things that I call levers that we can pull. I call them levers because you can pull them to varying degrees depending on what the lever is. The easiest thing to do, and something that we are doing, is simply getting every decision-maker in the organisation, no matter how senior, to understand the financial challenges and to understand what they can do about them. Simple financial management training in the sector is really important so people understand the issue and they understand what they can do about it. Good budgeting is using budgeting techniques to make sure that we are budgeting properly. A continuous improvement program – a lot of local governments are starting to do this. I have been at Brimbank for eight months now, and we are just about to introduce a continuous improvement program. That is really important to find efficiencies. Oftentimes there are incremental efficiencies. And to be clear, turning efficiencies into dollar savings can be a challenge, but what it does over the long term is slow the increase in your expenses, and it is just good business, so that is something that we are doing.

Benchmarking user fees is another area, so ensuring that we are covering the cost of delivering services. But in a place like Brimbank, sometimes you cannot charge fully for a service because you want to encourage a social outcome. That being said, we have a leisure facility that we fund – it just opened – that is incredibly popular, and it delivers us a very large piece of revenue that helps us. Outsourcing, volunteer programs, private–public partnerships – PPPs – all of these are forms of managing or sharing costs and things that should be looked at. Selling assets – that is a very hot topic. Most councils have surplus land or buildings that are unused. We certainly do, and we are certainly looking at that. Managing a portfolio of assets is just good business. I often caution councils, though, that you need to be careful selling assets to fund operations, because what happens is you introduce a program, the money that you receive from selling that asset runs out at a certain point but that service continues. That being said, selling assets to fund other assets is absolutely something that should be considered and is something that we would consider. It absolutely has a role if used prudently in that way.

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.

Sector cooperation – another big area for potential savings. We have not done this very well as a sector, but this runs anywhere from knowledge sharing so that you can avoid expensive consultants – in our project management space we are doing a lot of knowledge sharing so we are not paying for expensive consultants – to shared services, shared contracts and ultimately to the incredibly contentious topic of amalgamations, which I will not go into because that is a very contentious topic. The most powerful lever and the one that we are really focusing on is what we call service planning. Service planning is a process by which you look at a service using data, using trend analysis and you make decisions about what you must do, what you should do, what you could do and maybe what you will not do. The private sector does this all the time, but it is something that we need to be looking at.

Now, the complexity in the public sector is that you do not just have a market, you have legislation, you have social obligations and those types of things, but you can still look at a service and you can make decisions. Sometimes it is as simple as a continuous improvement initiative and sometimes it is more complex like exiting a service, and we did that in the aged care space because we did analysis that showed that the private sector was actually dealing with that sector more effectively than we could. We retain some services that the private sector is not fulfilling, but we were able to exit that. They are really difficult political decisions to make, to exit a service, but the reason we were successful, I think, in doing that is that we provided a lot of data, a lot of analysis, careful reasoning and a really clear path forward as to how the community would still have a service delivered, just through a different means. We emphasise that, because service planning is one of the only levers that fundamentally changes the mix between expenses and revenue. It actually changes the equation, and again they are very difficult decisions sometimes to make, but the sector and certainly Brimbank is going to have to

start doing that. It could be something as simple as – I often use the example of libraries – changing the hours of libraries or perhaps reducing a service but not eliminating it, but again that changes that mix.

So what are we asking for? I am not going to read the bullet points from the submission, but I will summarise them. First of all, reviewing rate capping. It is probably no surprise that I would say that. We are not suggesting that it should be removed, but it may be that there is a better way to look at rate capping that deals with issues that Brimbank might have or maybe looks at what the costs are in local government and is there a different index that could be used to set the rate cap. I think we would be quite happy, certainly at Brimbank, if we at least had CPI. In the past year the rate cap was below CPI, and it has been a few times. I think looking at that in some detail would be helpful.

This is a federal government thing but I am going to mention it anyway – an increase to the financial assistance grant. It is probably no surprise we would say that. We are grateful for any grant funding that we get. Grant funding, by the way, whether it is recurring, whether it is a one-off, whether it is operational or whether it is capital, is about 11 per cent of our budget, so if we do not receive grant funding, we are absolutely unsustainable. We absolutely depend on that, and we are grateful for anything that we get. I think sometimes we do not thank the state and the federal governments enough for the grants that we get. But I think looking at grants in general, particularly for some of the areas that are specific to Brimbank around the social disadvantage, the mental health, the gambling, some of those issues and then certainly land contamination, and being more targeted in that could be very helpful.

Another area that I would like to mention, and this is something very specific to Brimbank, 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. It would be helpful if there was a simpler Essential Services Commission process just for this. I am not suggesting that we would change the process for rates in general, but for this issue – because the reality is if we were to get a one-off exemption to increase the rate cap for one year and then that is offset by the decrease in the cleansing charge from the ratepayer's perspective, it is a zero-sum game. They still pay the same amount; it is just that the amount they pay is through rates as opposed to the cleansing charge, so to make that change would not have an impact on the ratepayer.

By the way, in terms of the rate cap, if we have time or if you are interested, I can give you some examples of how a 2.75 per cent versus a 4 per cent difference would impact the ratepayer versus the total rates that we would receive from that difference. I worked out an example of that.

I guess the last piece here, again this would be a huge topic, is just looking at cost shifting and looking at some of those services. I think it would be fair to say that those are services that are absolutely essential to our community, so no-one is ever going to argue that you would remove school crossing guards, but how we fund that is something that we could look at. Again, that might come back to that grants question. If you come back to the rate capping issue, it is a politically difficult topic, and if it is not possible to address that, then it might be something through a grants process and again a targeted grants process that might be helpful.

I guess in summary we have a lot that we can do as an organisation and we have to do that and we are trying to do that. But those are some of the areas that I think you might be able to help us with and really partnering in all of this. I think it is really important to work together on these issues because they are solvable in the long term. Thank you. I think I have used my time.

The ACTING CHAIR: Thanks. I might start with a quick couple of questions and then go around the table. Your submission mentions land contamination issues. What has been the cost to your council in managing those issues and the contaminated sites, and has that affected your ability to properly fund community services?

Mark STOERMER: At this stage it has not. The way it impacts us is through potential lawsuits, through the liability that we have through planning issues. Oftentimes they may be unknown issues, but through planning matters, potential legal costs, so the real issue there is what the liability is and what it could do in the long term. It is one of those things that you have to plan for because any one issue could be significant. I look at it as a liability at this stage, but one that we have to plan for because it is a known issue. I am currently doing some work on actually how we cost that liability.

The ACTING CHAIR: Is there any way to resolve that? Should the state government take full responsibility for managing these sites given they were originally licensed and are regulated by the state government?

Mark STOERMER: I think that is a great question, and I am going to be careful on the response because I do not have a formal position from our council. What I would say is that we need to work together on resolving that because it impacts us directly. But as I was saying earlier, these sites served the whole metropolitan area, so it would seem reasonable that the state helps us in that. What that looks like would be a great conversation to have and I do not have all the answers today as to what that might look like. But we would absolutely welcome discussions on that because of the potential liability and the fact that those sites did serve really the whole of Victoria.

The ACTING CHAIR: Excellent. Thank you. I might go to Ms Mansfield.

Sarah MANSFIELD: Thank you. Thank you for appearing today. I am interested – you made some comments early on in your presentation just about asset renewal and maintenance and the challenges that that is posing for councils. You then made some further comments about the impact of climate change, which is potentially going to exacerbate some of those existing challenges. Specifically with respect to that asset renewal and maintenance, are there things that you think this state government could assist with in that space?

Mark STOERMER: Yes. I think capital grants become really essential. My experience from a few councils is that we are invited to apply for capital grants and funding, for which we are absolutely grateful. I remember I was a CEO at Nillumbik and we received a huge amount of funding for assets, and we were incredibly grateful. This is going to sound like we are ungrateful as a sector, but the issue oftentimes with grants is that they only fund part of an asset and they are new assets that down the track require maintenance and renewal. There is a long-term liability there. I think, again, it comes back to the funding for those assets but then thinking about them from a long-term perspective as well.

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. You need new assets, you need new community centres. I was just at Wyndham before this, and they are opening multiple community centres per year because of the growing population. 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. I think it comes back to how you help us think about new assets and funding those assets over the long term. Does that make sense?

Sarah MANSFIELD: Thank you. Yes. So perhaps a grant that also takes into account some of those longer term costs.

Mark STOERMER: Operational, yes.

Sarah MANSFIELD: Yes. What do you think will be the consequence of not dealing with this asset renewal issue? Including that impact of climate change on assets, what is going happen to councils?

Mark STOERMER: I do not –

Sarah MANSFIELD: I know it is a hypothetical.

Mark STOERMER: This might be overstating it, but this is where my accent will come in handy, because if you look at the US where I come from, and if you look at California where I come from – I was there two years ago, and I was walking with a friend. We are walking on a road, and I thought, ‘This road is unsealed, and this is a fairly wealthy community. Why haven’t you sealed the road?’ Her comment was, ‘Actually it was sealed and the council didn’t have enough money to renew it, so they let it return to basically gravel and then dirt.’

There are lots of examples where if you do not invest in renewal, you get really, really bad outcomes, to the risk of the community. You have seen the most extreme examples of bridge collapses and things like that. The issue with not spending enough on renewal is that at some point your condition rating drops. If you want to get your road, for example, back up to a certain level, it actually costs you more in the long term because not only do

you have to resurface that road, oftentimes you have to rebuild the fundamental underlying part of the road. In the long term not spending on renewal costs you more. The good news in that is there is software that can give you very accurate calculations on what you should spend for an asset class based on the condition that you want. But it is a challenge of most local governments.

The ACTING CHAIR: I might go to Mr McIntosh.

Tom McINTOSH: Thanks for being here and thanks for showing and demonstrating that an accent does not have anything to do with capacity to deliver information and knowledge, because that is probably one of the best introductions we have had so far. I just want to pick up on a couple of points. Continuous improvement and efficiencies and knowledge sharing – we have heard from some regional shires about how they are looking at that. I just wondered how that is looking for you in practice, how MAV are assisting you in that, or other bodies are assisting perhaps, and what the opportunities are there you see.

Mark STOERMER: Thank you for that question, because continuous improvement is actually one of my biggest passions. It is one of the reasons I think I was hired at Brimbank. What we are introducing at Brimbank is a program based on lean thinking. It is how you look at processes across an organisation, how you look at it from a customer perspective and how you remove waste in the process. There are lots of methodologies, lots of tools in that, but getting people to think about that all of the time, the reality is if you think about it from a customer perspective, what do they value most and how do you improve the processes? Because there is a lot of bureaucracy and there is a lot of hand-off in local government, and there is probably at all levels of government, so how you improve that process to deliver a better customer experience but also in a more efficient manner. That is something we have literally just announced, the start of that program, and I could spend a whole session on talking about continuous improvement methodologies.

The challenge with continuous improvement as the solution for everything is that oftentimes you will find productivity improvements do not always translate directly into dollar savings. What it does is slow the growth of your headcount, and it might slow the growth of other expenses. That being said, continuous improvement – I remember at the City of Melbourne Kathy Alexander was the CEO and she introduced continuous improvement, and we were able to identify new sources of revenue and better methods of collecting revenue to increase our revenue. So it is not just an efficiency–cost exercise: it could be a safety improvement, it could be a revenue enhancement improvement. I think it is a fundamental thing, and most councils now are doing this.

In terms of knowledge sharing, the MAV can absolutely help us by connecting people. It is a fairly small sector. I am always amazed at how many people move between the different councils, so people know one another. In our project management office, the head of that – and she reports to me – simply reached out to her colleagues and set up a committee to start talking about how other councils in the area, so Wyndham, Melton, Maribyrnong, are doing project management and sharing resources, sharing templates, rather than spending money on a really expensive consultant. Because there is the knowledge in the sector to do this and do it well.

Tom McINTOSH: Do you think there is opportunity to do more of that?

Mark STOERMER: Absolutely.

Tom McINTOSH: Do you see the ability to do that wider afield as possible, or does it only work in sort of that cluster model?

Mark STOERMER: That is a great question. I have to really think about that, because I think there is always opportunity to do it on a broader basis. I mean, the economies of scale that you can get from that in its extreme form, you know, you could think about shared services or even amalgamation of certain functions. I am going to be candid: you do not need 79 directors of corporate services. I think it works on a more local or regional basis simply because we oftentimes have similar issues. I think it works quite well on a local basis, but I would never want to rule out doing it on a wider basis.

Tom McINTOSH: The last point, Chair. Is that generally being led by local councils or are MAV or others coming in and helping assist with that?

Mark STOERMER: It is all of the above, because the sector has tried this so many times. There have been external people that have come in to try to facilitate this, but in some ways that organic coming together has worked I think really well. But the MAV absolutely has a role to play.

Tom McINTOSH: Okay, thank you.

The ACTING CHAIR: Thank you, Mr McIntosh. I will go to Mrs McArthur.

Bev McARTHUR: Thank you for coming this morning, Mark – most interesting. Rate capping is the ratepayer's best friend, really.

Mark STOERMER: Yes.

Bev McARTHUR: But the problem is you councils fix the rates within the rate capping. How many classes of rates has Brimbank got, for instance?

Mark STOERMER: I think we have got six or seven different classifications. You have got a different one for residents, commercial, industrial, vacant land, which is fairly common, and of course there is a differential in that.

Bev McARTHUR: So really, if we look at this problem of funding local government holistically, is property taxing still the right way to go about finding local government?

Mark STOERMER: That is such a broad, political question I would be hesitant to give a response. What I would say is it is 70 per cent of our revenue, so it is a really important discussion to have. It makes up the majority. If I can, I want to use the example of the 2.75 per cent versus the 4 per cent, because absolutely nobody likes to pay their rates. I live in Wyndham and I am a ratepayer, but rates fund a lot of services that are essential.

Bev McARTHUR: If we did away with rates and had a set amount of funding for specific service delivery, and then for any other extras you want to supply, the ratepayers could say, 'I'll tick that box. Yes, I'll fund a laughing class or a rainbow road or overseas frolic.' How would that be?

Mark STOERMER: I am not entirely sure I understand.

Bev McARTHUR: If you did not have rates and property taxing – which are incredibly unfair and unjust because it varies according to geography, doesn't it? In inner-urban Melbourne councils people will be paying much less rate in the dollar than they would be out in the country, for example. It is the only tax which is based on geography, really. We all pay the same stamp duty or income tax or GST, but rates are a tax that is very discriminatory. If we did away with funding so that you had a set amount of funding based on the services you have to deliver – roads, footpaths, public spaces – and then we look at the other things that really probably should be funded by state government, like school crossings, kindergartens, maternal health services. Many of those things, which you have rightly identified as being a problem of cost shifting, are really state government responsibilities, but local government have increasingly said yes to every program that the state government want to dish up to you instead of probably saying, 'No, if you want us to deliver it, you'll fund it 100 per cent.' As local government, do you find the conversation is happening amongst your colleagues, that you want to look at a different way of funding local government, a set amount of funding for specific services?

Mark STOERMER: I absolutely understand your point. I would not want to comment on it to the degree that that is a really big change.

Bev McARTHUR: Should it be something you should all be looking at?

Mark STOERMER: My personal view – and I will just make it clear that it is my personal view – is that everything should be looked at. But no, I have not heard that level of discussion, at least in my circles.

Bev McARTHUR: All we hear is 'Let's work out a way where we can make the ratepayers pay more' basically. Let us agree, local government is pretty top heavy – there are a lot of directors and managers and whatever. One of the councils in my area did away with all directors and managers because they figured it was the size of a business and at that size of a business you would not have all these directors and managers. You

are also operating under local government awards, which are higher than other awards in other classes of employment. Local government does have a lot to answer. Have you ever looked at having an extra column in your Excel spreadsheet which might say 'Outcomes' – tick, it delivered; cross, it did not deliver, therefore that program goes.

Mark STOERMER: Absolutely. In some instances we are required to report on those outcomes. It is absolutely something that as part of this whole program around continuous improvement et cetera we need to be more focused on – what are the outcomes and how are we measured against that? So it is taking that business view. In terms of local government being top heavy, I understand the point that you are trying to make. I have worked in organisations where I have removed levels, and I think in any organisation, whether it is a private business or the public sector, you always have to look at your structure and make sure that your structure is correct. One thing I would say about local government, and I am not sure that the general public always understands this – I certainly did not; when I got into local government, I had no idea who my council even was – is we are a \$265 million operational budget organisation, and we deliver, depending on how you count it, 79 or 80 different services with very diverse skill sets required and a lot of oversight. We have the *Local Government Act*, but we have dozens and dozens of other pieces of legislation and compliance obligations. So I think sometimes –

Bev McARTHUR: How much is all that costing you, that compliance?

Mark STOERMER: I do not want to give the number because I do not have it handy, but we have actually identified that figure.

Bev McARTHUR: Could we take that on notice?

Mark STOERMER: Yes.

The ACTING CHAIR: Thanks, Mrs McArthur. I will go to Mr Berger.

John BERGER: Thank you, Mr Mulholland. I did not think we were going to get much of a chance there, but anyway, it looks like we have got an opportunity. Thanks for your appearance today, Mark. It has been very well received, some of the comments that you have made to date. I am just interested to hear if you have got any skills shortages. We have heard from a lot of the regional areas that they are really struggling to attract people to come into their organisations, especially around the engineering side of things. I am just wondering if you have identified any gaps and what might be outstanding for you guys.

Mark STOERMER: Thank you for that question, because I have not had a chance to talk about the workforce. We absolutely have some shortages, and it depends on the year and the time. We are in the process of a significant IT transformation. We have brought IT in house, but finding project managers and people with IT skills that we can actually afford is challenging. It is surprisingly difficult in the procurement space, and certainly there are shortages in a number of the community services areas. So yes, it is a ubiquitous challenge not only in local government but really in a lot of sectors. But the way we deal with that, and I think it is something we are really proud of, is through our employer brand. We have a very strong culture that allows us to attract people, and that is the only way we can oftentimes compete with the private sector to attract people. We have good working conditions – we have great working conditions, to be honest – and a great culture. We have just done an employee engagement survey, and it has been very strong. The way we deal with that shortage is by attracting people to our sector through what we can offer in a job. But we definitely have shortages in different areas. But as I said, it changes year on year.

John BERGER: I am just wondering, Mark, if we can drill into the IT side of it. Are there opportunities across councils for you to get together and say, 'Rather than design one thing that is unique to your particular council, it might be useful across all of them?'

Mark STOERMER: That would be my dream. I would love to see that. Again, 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. And it has been tried, but it has not worked. There are huge opportunities in that space for efficiency. Really in most of the back-office functions there are huge opportunities for efficiencies. That does not change the revenue and expense equation, but it gives you a lot of room. If you could deal with that issue, it would give you a number of years of

improvement. It is absolutely something that should be on the agenda. But it has been tried, and it has not worked out so far.

John BERGER: Do you think it should be a key recommendation then, Mark, that more exploration should be put into this and more thought go into it to get the councils thinking along one line to get that outcome?

Mark STOERMER: I think that it would absolutely help to make a recommendation that councils should be looking at how they share resources. I do not know exactly how you word that, but the concept is important.

John BERGER: Thanks, Mark.

The ACTING CHAIR: I will go to Ms Terpstra.

Sonja TERPSTRA: Thanks, Acting Chair; and thanks, Mark, for your really comprehensive presentation. I really appreciate it. Just a question on climate change. I was listening to your presentation when you were talking about the heat island effect and that your municipality is one of the hottest places in Melbourne. Could you unpack that a little bit in terms of some of the impacts that it is having directly on your community and some of the things that council potentially could be doing at a local level or are doing at a local level to ameliorate some of the impacts of the heat island effect? Also just talk about in regard to some of the more extreme weather events that we have had lately – flooding, storms, those sorts of things – could you unpack some of the challenges that your council has faced as a consequence of some of those extreme weather events?

Mark STOERMER: Thank you for that question. I am not the expert on climate change, so I will give you some summary comments and then if you would like some further information, I can get that for you. The primary effect on our residents, particularly for those in a low socio-economic situation, is that they cannot afford air conditioning, plain and simple, so they are more vulnerable, particularly at night when the temperatures do not drop and particularly for an older population. It is quite directly the physical impact of heat and the inability to have enough cooling. During extreme heat weather events, and I have not experienced that yet while I am at Brimbank, my understanding is we generally open our libraries and some of our community services to provide that cooling place. But we are thinking about more strategies and how we deal with that, because that of course is going to become a more and more challenging issue. We have been lucky for the last few summers because it has not been as extreme. But then of course we have had the flooding issues, and that impacts roads, number one, and potholes and the maintenance. As I mentioned earlier, we have estimated that between now and I think about 2040 that cost per annum is 10 to 15 per cent of our capital works budget in terms of just fixing and maintaining assets. That figure goes up significantly if you project out further, so there is a real cost to physical damage to assets. The way we mitigate, or what we can do as a council to mitigate, is basically plant more trees. We do not have enough trees, and trees of course are a key method for helping to reduce the immediate impact. That is an area that we invest in.

Sonja TERPSTRA: Just on that, because it goes to a planning issue, are there any planning controls that you have been thinking about perhaps to work on reducing the heat island effect? I know there are some other municipalities that have looked at it not in Victoria but elsewhere. I think one new housing development was talking about banning black roofs, for example. Are there any planning measures that the council is looking at or considering taking in response to trying to address some of these impacts of the heat island effect?

Mark STOERMER: I believe there are, but I would like to take that question on notice, if I might, and provide you a more detailed response.

Sonja TERPSTRA: No worries. That is fine. Thanks very much, Mark. Thanks, Acting Chair. No further questions.

The ACTING CHAIR: Thank you. I will go to Ms Broad.

Gaëlle BROAD: Thank you, Mark. We appreciate your time today. You talked at the start about councils' underlying deficits, but can you just speak to how concerned are you about the long-term financial sustainability of local councils?

Mark STOERMER: Thank you for that question. I am concerned that if we do not do anything, it is unsustainable. Certainly if I use Brimbank as an example, if we project out over 10 years, our cash, all else

remaining the same, dwindles to an unacceptable level and the VAGO financial indicators that we measure all turn very negative. That is if we do not do anything. The reason I am optimistic is that there are so many things that we can do. I temper that optimism with the fact that some of those levers that I talked about require really difficult decisions and do require big thinking, as we talked about a little bit earlier. But I am cautiously optimistic because there are solutions and we can deal with it in the long term. But if nothing changes, then at some point, if not the next five years or not the next 10, there will be a day of reckoning, so we have to do something. It is not really an option.

Gaelle BROAD: It is consistent, the five- to 10-year projection, across different local councils?

Mark STOERMER: My experience in that space is that I know that rural councils, for example, are already at that point. If you think about the challenge, some councils are further along that challenge or that point than others. My understanding is that if you are a rural council in Victoria, then you have challenges just maintaining your basic infrastructure. If you are another council perhaps in the inner city, you may have more resources. I think it depends what council, but the issue of expenses exceeding revenue is fairly consistent across the sector – different councils are at different stages of that.

Gaelle BROAD: You mentioned too grants are 11 per cent of your revenue. Can you just talk to how have you found the grant process? I understand there have been changes; it is more competitive. How much time does it take for you to be applying for grants? Can you expand on your experience?

Mark STOERMER: Thank you for that question. I was thinking about that exact question for some reason on the drive here. It is a complex process, and there is a lot of work that goes into being competitive in applying for a grant but also in the acquittal of a grant and the work that needs to be done there. I think it probably depends on the specific grant, and I absolutely understand the reason for that. The state government provides grants, and it wants to ensure that the money that it provides is being used appropriately and delivering on the objectives. But it would be helpful to look at ways perhaps to simplify that, because we do spend money on people's time to do the paperwork that is involved. Again, you have to have something, no objection to that, but there may be ways to simplify that. I think the other aspect of that is councils are starting to sometimes say no to grants because the grants come with additional expenses. If something is only funded to 50 per cent and the council has not planned for that in its budget or its long-term financial plan, it has got to come up with the matching funds. That may mean not doing something else, and those are the decisions that need to be made. Again, it is completely understandable; it is just a decision process that has to be worked through.

The ACTING CHAIR: Thank you. Thanks, Ms Broad. I will go to Mr Ettershank.

David ETTERSANK: Thank you, Chair. Thank you, Mr Stoermer, for a really constructive presentation; I appreciate that. I might just pick you up on your invite to the committee before about the example of the 2.75 versus the 4 per cent and link to that also a question: if CPI is wrong, do you have an alternate index in mind?

Mark STOERMER: Thank you for giving me the opportunity to give the example. I am going to state right up-front that we have a disadvantaged community. I know that every cent that a resident or a ratepayer has to spend is a cent that they cannot spend on something else, so I want to just start with that. But in 2023–24 our average rate was \$1776. You have to understand that some people would pay a lot less and industry and large commercials would pay a lot more, but that would be an average. At the rate cap of 2.75 per cent in 2024–25 that average number goes to \$1825, so that is just shy basically of \$1 per week increase for that resident. Again a dollar, for someone in a difficult situation, is a dollar, so I do not want to underplay that. But at 4 per cent, that \$1825 becomes \$1847 – that is an additional \$22 per annum, so less than an additional \$1 per week. That might seem like a small number for the individual, but for us, if you multiply that by the number of assessments, then you are talking about a \$2 million difference. Again, that might seem like a small number but that is the difference between a surplus and a deficit. Our 2024–25 budget forecasts a surplus of \$1.7 million or almost \$1.8 million, so that can actually be the difference between a surplus and deficit. I would also make the argument, but I think people might make alternative arguments, that that \$2 million could actually fund programs that help those disadvantaged people. It is always a balance between what you tax versus what are the programs that you can offer, and that is the constant challenge that we always face. I wanted to raise that because it is a disadvantaged community but that is a fairly small increase per person, whereas multiplied out it is bigger.

David ETTERS HANK: And in terms of an alternate index to the CPI?

Mark STOERMER: Oh, yes. I have not turned my mind to that, but that is something that I would like to do because I think there may be some alternative ways of looking at that.

David ETTERS HANK: Would you like to take that on notice?

Mark STOERMER: I will take that on notice.

David ETTERS HANK: Terrific. You have sort of talked about the socio-economic profile of Brimbank. I am very conscious of that. Would you like to talk a little bit about the practical implications of unemployment, social isolation and mental health in the Brimbank region and what that means for council in terms of delivering services?

Mark STOERMER: Yes. Unfortunately Lynley was unable to be here. She is acting CEO at the moment trying to balance a few things, but her substantive role is community services, and she and I have talked about this. The practical implications are around program and service delivery, because people in that demographic need extra assistance. I think we would make the very strong argument that the money spent, say, for example, on a youth program is a lot more cost-effective than what happens if those youth then get themselves into trouble and the ramifications of that. The practical implication is that we need to be able to fund more services to bring those people into the community, particularly around social isolation and mental health. I think the challenge that we often have – and I would have thought this before I was in the public sector; I have been out and seen what our community people do – you think about roads, rates and rubbish. Those of the mandated things, but a lot of these community services which are not mandated by legislation provide an incredibly important role in that social cohesion, in helping people feel less isolated and in bringing new arrivals into the country into the community. I think that is really important work that we do. It is not mandated, but it is essential.

David ETTERS HANK: Picking up Mrs McArthur's point, do you think it is viable for councils simply to step away from those non-RRR-type issues?

Mark STOERMER: Again, I am probably getting into the political space here, but I think I would be confident in saying Brimbank's response to that would be it is very difficult to do that because if you exit those services, then you are going to deal with the consequences of people being isolated, of youth not being engaged, and the consequences to be frank are that they end up in trouble and the costs of dealing with that can outweigh the cost of having programs at that early stage to get people involved in the community. I am corporate services so I am generally internal, but I do get out and about and I do see how those programs do actually help the community.

David ETTERS HANK: Terrific.

The ACTING CHAIR: Excellent. Thank you, Mr Ettershank. Thank you, Mr Stoermer, and thank you to your colleagues. We really appreciate your testimony today. You will be sent a copy of the draft transcript before it is published.

Mark STOERMER: Excellent. Thank you very much for the opportunity.

Witness withdrew.