

TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Local Government Funding and Services

Melbourne – Wednesday 26 June 2024

MEMBERS

Georgie Purcell – Chair

David Davis – Deputy Chair

John Berger

Katherine Copsey

Moira Deeming

Bev McArthur

Tom McIntosh

Evan Mulholland

Sonja Terpstra

PARTICIPATING MEMBERS

Gaelle Broad

Georgie Crozier

David Ettershank

Michael Galea

Renee Heath

Sarah Mansfield

Rachel Payne

Richard Welch

WITNESSES

Kat Panjari, Director, Strategic Foresight and Partnerships, and

Emlyn Breese, Coordinator, Research and Policy, Strategic Foresight and Partnerships, Municipal Association of Victoria.

The CHAIR: I declare open Legislative Council Economy and Infrastructure Committee's public hearing for the Inquiry into Local Government Funding and Services. Please ensure that mobile phones have been switched to silent and that background noise is minimised.

I would like to begin this hearing by respectfully acknowledging the Aboriginal peoples, the traditional custodians of the various lands we are gathered on today, and paying my respects to the ancestors, elders and families. I particularly welcome any elders or community members who are here today to impart their knowledge of this issue to the committee or who are watching the broadcast of these proceedings. I also welcome any other members of the public who are watching via the live broadcast or in the public gallery.

To kick off we will introduce committee members, starting down this end of the room with Mrs McArthur.

Bev McARTHUR: Bev McArthur, Western Victoria Region.

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

Tom McINTOSH: Tom McIntosh, Eastern Victoria.

The CHAIR: Georgie Purcell, Northern Victoria.

Moira DEEMING: Moira Deeming, Western Metro Region.

Sarah MANSFIELD: Sarah Mansfield, Western Victoria Region.

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

The CHAIR: And on the screen –

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan Region.

The CHAIR: Thanks, Evan. Thanks very much for coming along today.

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 this hearing is protected by law. You are protected against any action for what you 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, and you will be provided with a proof version of the transcript following this hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, can you both please state your full name and the organisation you are appearing on behalf of.

Kat PANJARI: I am Kat Panjari. I am the Director of Strategic Foresight and Partnerships at the Municipal Association of Victoria.

Emlyn BREESE: Emlyn Breese, Coordinator of Research and Policy at the MAV.

The CHAIR: Wonderful. Thank you. We now welcome your opening comments but ask that they are kept to around 10 to 15 minutes to ensure plenty of time for discussion and questions.

Visual presentation.

Kat PANJARI: First of all, thank you to the committee for inviting the Municipal Association of Victoria to present our preliminary recommendations. Our upcoming submission to this important inquiry will be presented to the committee in about a week. We have got a slight extension, so we be providing that to you by 5 July.

The MAV is the peak legislated body for local government in Victoria. We were formed in 1879. An Act of Parliament, the *Municipal Association Act 1907*, officially recognises the MAV as the voice of local government in Victoria. As that collective voice for Victoria's 79 local councils, we represent the state's more than 6 million people, and we work collaboratively with councils to ensure that their communities both adapt and thrive. We offer advice, services and resources necessary to ensure our councils can fulfil their essential roles. In addition to the activities we perform to achieve our purpose and vision, we have recently focused our efforts on more specific issues affecting our members – that is, all 79 councils across the state – including the urgent imperative to work with councils to address climate change and move to a low-carbon future. We have also worked to address rising inequalities and collaborated with councils to build resilience in our communities, networks and infrastructure as we recover from the impacts of the pandemic, fires and floods which hit our local councils significantly.

It is within this context and to ensure that the MAV is best placed to help local councils successfully navigate this ever evolving landscape that we have developed the MAV strategic plan. Hard copies have been provided of that to the panel members today, and we will make sure that the other committee members do have a copy of that strategic plan as well. But you will see on pages 19 to 24 of the *Shaping Our Future* document that we have provided you that we have identified 10 enabling priorities that will help the MAV focus to empower local councils to not just face the future but to actively shape it, and no-one understands the challenges and opportunities facing Victoria in the 21st century better than local councils. From rapidly evolving technology to social changes, shifting economies and environmental pressures, our local communities and the local governments that represent them are at the forefront of multiple transformations that are happening simultaneously. We have the financial volatility that we will talk to today, we have the climate volatility that is impacting significantly on the infrastructure that we manage and then there is the democratic volatility that is happening, where we are seeing an increasing polarisation within our communities. In this context Victoria's 79 councils are delivering the essential services and infrastructure to meet local and state priorities across numerous areas, including community resilience, social cohesion and safety, climate change and housing.

I will just draw your attention to the slide now where we have tried to provide a snapshot of the functions that local governments across Victoria perform. They are as diverse as the communities that they represent. We have council populations that range from just 3000 people to over 340,000 people. The largest local government area in Victoria spans 22,000 square kilometres and the smallest just 8.6. The budgets of those councils range from \$13 million to \$580 million, and collectively councils manage over \$140 billion in physical assets and infrastructure. Local government is an efficient and trusted provider of services to our communities – emergency management, economic development, maternal and child health, kindergarten, food safety and road management are but a few. I will particularly draw your attention to the figure which indicates that local governments across Victoria manage over \$140 billion in infrastructure and invest more than \$4 billion annually each year in the upkeep, maintenance and renewal of that. You will see that in the top right-hand corner.

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. Accordingly, local governments have large fixed costs to maintain these assets, imposing a major constraint on their budgets. 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. Both federal and state governments lean on local government to deliver many of their priorities, often with low or even no funding to do so. This underscores the importance of adequate funding to maintain public trust and quality of life in Victorian suburbs, towns and rural areas.

While the MAV seeks to work in partnership with state and national governments to deliver on shared priorities and to shape our shared future for our communities, this inquiry comes at a critical time as local governments experience ongoing challenges due to insufficient funding and additional responsibilities that have shifted from other tiers of government. Cost shifting takes numerous forms but in each case contributes to the erosion of local governments' capacity to perform the many roles that you will see here. In areas such as building

regulation the Victorian government ascribes expansive responsibilities to councils without a revenue stream to resource them. Decisions by the Victorian government also increase the cost of service delivery, whether through increased regulatory burden or direct impacts of raising, for example, the landfill levy, which has increased from \$65.90 a tonne in 2021 to \$169.79 a tonne in July 2025.

A recent report by the Mornington Peninsula Shire Council estimated cost shifting over the next five years to total \$234 million in operational costs and a further \$38.4 million in capital costs. Coupled with a rate cap that has never accurately reflected cost increases, councils find themselves in an increasingly precarious position. As a result, many Victorian councils are being forced to make hard decisions about which essential community services they will stop delivering. For example, across Victoria many councils are exiting the provision of aged care, as their overall financial position has meant they cannot carry the risk of an uncertain funding model. Early years education and care in Victoria could not exist without council facilities contributing to and enabling national productivity outcomes. Increasingly, Victorian councils are withdrawing from early years service and infrastructure provision due to the escalating infrastructure costs and workforce shortages.

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 key recommendation of the MAV submission to this inquiry will be for this committee to recognise the broad remit of local government and the value that financially secure councils contribute to state, local and national priorities. The second recommendation will be to treat local government as a critical partner in policy development and implementation. There are serious risks to the financial sustainability of Victorian councils, and increasingly councils are reporting underlying deficits, reductions in unrestricted cash and working capital and deteriorating asset renewal rates. You will hear more from FinPro, which is another organisation which will present to you later today. While the disconnect between the rate cap and the actual cost increases is important to address, it is not a panacea. Many of the most financially marginal councils are home to communities that could not absorb a higher rate increase, and their councils know this. What we need to do is to halt and reverse the process of cost shifting to councils as well as better implement principles of horizontal fiscal equalisation to equip all councils to succeed, and our submission will go into more detail about that. The revenue structures for local governments in Victoria are just not sustainable, and alternative funding models are required. Again, I reiterate that for every dollar of revenue that councils collect they manage \$10 of physical assets, like those parks and roads and kindergartens that our communities use. For the Victorian government this is \$4 and for the Commonwealth it is 40 cents.

A key part of the deterioration of local government sustainability has been the introduction of the rate cap in Victoria. You will see on this slide here that Victoria's rate cap is set based on the Department of Treasury and Finance forecasts for CPI growth. Our submission will highlight that CPI is not an accurate indicator of the costs facing local government, and the MAV has developed a local government cost indicator that better reflects what councils are paying year to year to maintain service standard, as reflected on this slide. Using this cost indicator we estimate that since the introduction of the rate cap it has reflected just 60 per cent of the cost increases facing councils. As you can see, local government employee expenses, capital expenditure and other expenses have been greater than the rate cap tied to CPI. Using a methodology recently adopted by the New South Wales Independent Pricing and Regulatory Tribunal we can now provide estimates for future growth in that index based on RBA economic forecasts. Currently we predict that the local government cost index will increase a further 3.12 per cent in the 2024–25 financial year. For context, the Victorian government has set the rate cap for 2024–25 at just 2.75 per cent, so there is an inherent gap already embedded in that formula.

The rate cap is not the sole challenge for councils. Even absent a rate cap, councils are constrained by the capacity of their community to pay additional costs. In many cases communities with the least ability to pay are also the most expensive to service due to socio-economic disadvantage and small and disparate populations. Ultimately, this needs to be addressed through redistributions from other levels of government, including by

restoring the quantum of the Commonwealth's financial assistance grants to previous levels and expanding and improving upon other sources of grants.

The MAV's submission to this inquiry will make recommendations to reform the rate-capping system to accurately reflect the cost pressures facing local government, to incorporate a mechanism to correct where cost increases have varied from forecasts and to adopt a simplified rate-variation process to address widescale changes imposed upon council revenue or expenditure.

We will also ask this committee to examine the potential benefits of accommodating variations where population growth has outpaced annualised rate revenue, and we will provide specific case studies in our submission as to where that is happening to councils across Victoria. Implementing a multiyear approach to compliance with the rate cap, allowing councils more flexibility to manage revenue, needs and community impacts from year to year, will be another request that we will make in our submission. 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.

Before we close with our final recommendations, we would like to illustrate the cost shifting impacts on local government when proposing changes to practice, regulation or legislation, and we would like to use a live waste service charge case study. Emlyn will briefly talk through what happens when state policy changes bring about unintended consequences and impacts like cost shifting to local governments, so I might briefly hand over to Emlyn.

Emlyn BREESE: Thanks, Kat. We are using this case study because it demonstrates a number of issues that we see. As a brief context, prior to 2020 and 2022 councils were able to charge service charges for the collection of waste – previously as well sewerage, but that is now taken out. But the definition of what a waste service charge could take in was 'the collection and disposal of refuse', which is language I think inherited from previous versions of the Act going back several decades and did not really match the service delivery from councils currently in waste and resource recovery. The MAV advocated, as well as councils, for a number of years for that to be updated, that wording, to make sure that there was no question about what you can use a service charge for in waste and resource recovery. At the same time there were broader reforms to local government and the *Local Government Act* which saw the adoption of a more principles-based approach to how councils are legislated. Rather than directly prescribing a large amount of detail in the legislation and regulations, there would be more subsidiarity for councils to implement policy locally based on their conditions.

Following that legislative amendment, we finally did see a change to the wording of that service charge, which changed it to 'waste recycling' or 'resource recovery' services, which we saw as an acceptance that there needed to be an updating and a broadening of what can be covered by that kind of service charge. To our mind that change, which was implemented in 2022, brought to a close some of the questions and concerns that we had longstanding over the waste service charge issues. Late last year – I think it was the 23rd or 24th of December – ministerial guidelines were released for rating, which included detail on waste service charges which narrowed it further than even the previous legislation and said specifically that waste service charges should only be used for direct services to an individual household where you can demonstrate a nexus between a cost incurred and a direct benefit to that household rather than broadly within the municipality.

It was also stated that it should be carried out for the upcoming budget period, for the 2024–25 budget period, despite only being released in late December in 2023, so six months out from when budgets would have to be adopted. Between then and budgets being adopted, councils are required to take budgets out to community for consultation as well as a lot of preparation through council workshops. Many councils were reasonably well advanced in terms of council workshops and officer recommendations about the following year's budget by the time these guidelines were implemented without prior notice. One of the impacts that has led to is a belief in the community that councils have been overcharging with the waste service charge previously. We absolutely dispute that that is the case. Councils were applying the service charge as they understood it and as it was presented to them. The guidelines are a significant departure from practice. Various governments knew what the practice was and had not sought to change it up until this point. Obviously the timeframes for implementing that into a budget process are also extremely challenging to councils.

The operationalisation of the changes is actually really challenging as well, in terms of being able to separate exactly what the costs associated with an individual property are versus the broader waste services that a council provides. For a simple example, a truck route may incorporate both public place bin collection as well as household bin collection. So a council would be potentially expected under this guideline to separate that out and determine exactly what proportion of the cost is apportioned to the household and what is a broader municipal cost.

It is also attaching waste, which is quite a volatile cost area, to the general rate. In terms of being quite inflexible with a rate cap, previously one of the benefits of charging a waste service charge was that it is transparent about what the cost increases faced by councils for waste are, and we have seen over the past five years or so that they can be very volatile. We also see that, in opposition to a number of areas, waste is not an area where a council can readily control the costs it faces. The costs are largely driven by two factors. One is what goes into the bin, which a council has very little control over. That is driven by consumer choice and broader regulatory powers around product stewardship. The other is the cost of processing. In Victoria we have a really consolidated market for recycling. Councils do not have a lot of choice when they go to tender. It is not generally the case that they can accept this service at this price or this service at this price. It is 'You can accept the service we're offering you, or you can explain to your ratepayers that you won't have a service going forward.' That is a real challenge faced by councils and one of the reasons why waste costs would often vary significantly more than general rates would.

We think it also undermines the broader principles of subsidiarity and moving towards a more principles-based approach and away from prescription to local government of exactly what should happen. We think that communities are very diverse and councils are very diverse. There need to be consistent principles, but the delivery of actual services needs to be able to adapt to individual community circumstances and desires.

Kat PANJARI: Thank you, Emlyn. The M9 group of councils will be making a submission to this inquiry. 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 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.

In closing, to efficiently deliver on local, state and national priorities, we need to recognise the increasing role of local government, the shifting demands and increased reliance on councils as local implementation partners, and we need a change in funding models. The MAV recommendations will seek to ensure that all councils can both meet the immediate needs of their community and proactively address future challenges by appropriately resourcing councils where they undertake functions on behalf of the state and providing adequate revenue streams through a combination of grant funding, cost recovery and value capture mechanisms. We will recommend that state grants to local governments can be made more productive by reducing administrative burden, easing co-contribution requirements and continuing to fund councils for more than just shovel-ready infrastructure projects.

In closing, as the peak body of local government across Victoria, we invite the committee to work with the MAV and local governments across Victoria to improve the understanding of the key indicators for local government financial sustainability which are used by the state government. We think that they are fairly narrow. We would welcome the opportunity to host the committee to take a deeper dive into Victorian local governments across your electoral regions. We also hope that the committee recognises that the benefits of improving local government financial sustainability are numerous, diverse and immediate.

Thank you for your time. We will wrap up our presentation there.

The CHAIR: Wonderful. Thank you so much for your presentation and for the great detail. It was very handy. We have 35 minutes, members. I have set the timer this time to 4 minutes, if people can keep it as tight as possible. We will start with Mrs McArthur.

Bev McARTHUR: Thank you, Chair. There are so many questions I barely know where to start. Let us go to your number one priority, active local democracy. We recently passed an amendment to the *Local Government Act*, which severely restricts the ability of many councillors to speak openly about what they are

concerned about. The attacks on many councillors I have seen are completely outrageous, yet we are going to control their ability to speak openly and fairly at council meetings even more so. What representations did you make on that matter to the minister before this legislation was passed?

Kat PANJARI: We were involved in the engagement process for that change in legislation. It is outside the realm of this particular inquiry, so we would have to take on notice that question. We are very happy to provide you with that information.

Bev McARTHUR: Good. The other issue that concerns me is the unfair nature of the rating system in local government. As you are well aware, rural and regional councils have a much higher rate in the dollar system than they would in an urban metropolitan electorate. I can give you examples, but you are very familiar with them. What advocacy would you suggest so that we could get a fair system of taxation by way of rating?

Kat PANJARI: Did you want to talk about the recommendations that we made to the federal inquiry and as well will be in the state submission?

Emlyn BREESE: Yes, absolutely.

Kat PANJARI: Thank you.

Emlyn BREESE: I think basically the root cause of that is that we have increased costs of service delivery, small and disparate populations and socio-economic disadvantage. That also aligns quite closely to where you have a reduced capacity to actually pay. You have this problem coming at it from two ends, which leads to the inability of councils to be financially sustainable and service those communities. We think the approach is to make sure that other levels of government are providing sufficient support to be able to provide a baseline level of service to all Victorians regardless of where they live, and that needs to incorporate both the capacity to pay and the cost of servicing them.

Bev McARTHUR: Do you think all ratepayers should pay exactly the same rate in the dollar amount no matter where they live? It is the only form of taxation that varies by geography.

Kat PANJARI: I think, again, rather than getting into the taxation debate, for us it is about those financial assistance grants at the Commonwealth level being restored back to the 1 per cent figure that they were before, which would provide that funding base, a stable funding base that is untied to local governments across Victoria.

Bev McARTHUR: So you are happy that the disparate rating system adversely affects one cohort more than another? You do not think that should be addressed?

Kat PANJARI: It is not a question of us being happy, it is a question of us coming back to you. If that is an area of investigation that this inquiry will take, we would be very happy to engage with the sector and provide case studies on that.

Bev McARTHUR: Good. What about the issue of CEO salaries? I see some of these CEO salaries. The Geelong City Council CEO is being paid more than the Premier of Victoria. Do you have a view on how this impacts the ratepayers of Victoria?

Kat PANJARI: I do not, I am afraid.

Bev McARTHUR: So it is perfectly acceptable for these very high levels of salary to be applied?

The CHAIR: Mrs McArthur, I think that is straying slightly –

Kat PANJARI: I would not comment on that at this point.

The CHAIR: That is appropriate. Thank you. Mrs Broad.

Gaëlle BROAD: Thank you very much for your presentations today. You mentioned some of them, but do you have a list of specific areas where you feel the state and federal governments have cost-shifted onto councils, or could you include that?

Kat PANJARI: Yes. They will be aspects. We gave a snapshot of some of those today, but more case studies and a longer list of those will be provided in our submission.

Gaelle BROAD: Yes. And do you know of the budget impact or the financial impact on councils? Are you able to reflect on what that change means?

Kat PANJARI: I think we made a reference to Mornington Peninsula shire, who have done a financial model on that. Not all councils have done that, so we could not provide a comprehensive figure across the state, but it is significant. We can try to flesh that out a little bit more in our submission.

Gaelle BROAD: I note there was actually a parliamentary committee inquiry into the sustainability of regional and rural councils that was done back in 2018, and it mentioned a number of challenges and barriers to financial sustainability. You have mentioned some of those challenges today, but do you feel that these concerns are just falling on deaf ears?

Kat PANJARI: I think all levels of government are in a financially constrained context; we understand that. But more and more the policy shifts and the service delivery shifts are being felt at a local government level, so we do think that is escalating, that there is more push to local governments to deliver the services and pick up the services. Particularly where there is market failure in some of those communities in regional and rural Victoria where there is not a broader market share, it is often the local government that does step in to deliver those services. Yes, the impact is being more widely felt, because we are all financially constrained.

Gaelle BROAD: Could you talk to the tied grants and the untied grants? What sort of imposition or difficulty is there in the paperwork and the burden on councils to apply for the tied grant funding as opposed to the more flexible funding?

Kat PANJARI: 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. Many councils in your rural and regional areas will not have the capacity for a grant officer or someone on the team to write that grant application, and that puts them at a disadvantage in being able to address the issue in their community. We know of good examples where there are non-competitive approaches to providing funding to local governments, and we see enormous benefit and payback, if you like, from those untied grants and investments that go into communities. There is a great return on investment for government by doing that.

Emlyn BREESE: I think as well as the application process, rural councils in particular are often unable to meet co-contribution requirements, so there needs to be consideration of that for a metro versus a rural council. Timeframes are often quite inflexible. We are seeing at the moment in a lot of areas there is a real crunch on the ability to deliver infrastructure, but councils feel they are unable to delay, even if that would be a more cost-effective approach, because they have got these timeframes attached to grant funding. Just in the last week or two there has been a case in New South Wales where a council has actually been required to pay back in the order of \$40 million or so in grant funding because it did not meet the timeframes in the funding agreement. The other thing is about prioritisation of local issues. Where the decision on what to spend the grant on is made centrally, there is always going to be the risk that that is more politically motivated rather than necessarily tied to the needs of the local community.

The CHAIR: Thanks, Mrs Broad. Mr McIntosh.

Tom McINTOSH: Thanks for attending, and thanks for your presentation. I note up-front – and it is no surprise to me, with the councils I represent in Eastern Victoria, and I do not think to any of the members here, particularly the regional members – the reference you make to climate change. Obviously there are impacts of storms on residents – the trauma, the time out of home, the impacts of fire, flood and severe storm events. But also there are costs to businesses, particularly farmers, with the impact it has in particular on crop farmers and whatnot. Have you done any calculations about the impacts it is having or has had on residents, whether that be on their groceries or their insurance bills – that is a big one; we are really hearing that. Councils are talking about mitigation, but particularly the adaptation side of things. Have you got views on costings around that?

Kat PANJARI: We know there is a significant cost burden on local governments. I think it is a really important thing we can try to put into our submission to respond to that. We can definitely provide an increase

in the insurance costs and give you some data around that because the MAV is the insurer for local government, so we can draw on that data in that very volatile market as well.

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 cases that was not equalised, so those local governments are still carrying the burden and have not recovered. In terms of a dollar figure, certainly that is something we can try to estimate for you, but from a case study perspective our councils talk about that a lot.

Tom McINTOSH: I read something recently about the lost opportunity when dealing with infrastructure damage as opposed to getting all the new infrastructure. We talked earlier about the compounding effects. We were actually talking about the fact that between 2014 and 2017 the federal government paused indexation on funds, but it is that same thing: when a council cannot invest in infrastructure because it is dealing with damage that has occurred, it is not getting ahead. Do you think looking at that, broadening that out, when there is a lack of political will to deal with mitigating climate change – like last year was 1.5 degrees above average 1850 temperatures, and we are seeing that rise every year and more severe weather events and more moisture in our atmosphere and all that sort of thing – do councils and you see that compounding every year every time we delay action?

Kat PANJARI: Yes, we do see that compound, and we are calling in our submission for the concept of betterment funding to be embedded into any funding that does come through from the state or Commonwealth because at the moment councils are only funded to replace like for like. That does not futureproof the infrastructure that we need when these sorts of disasters happen and wipe out or damage the infrastructure. There is no point building like for like; we have to futureproof that for future climate volatility.

Tom McINTOSH: Have you been able to put a cost on political inaction, whether it is distraction or just outright unwillingness to deal with climate and what we are doing as Australia and as a major player in the world? Do you as a peak body see that collective cost?

Kat PANJARI: We can get back to you. I think we have got some comparative data to other OECD countries, but we have not probably measured that gap that you identify. We can certainly work towards that.

Tom McINTOSH: No worries. Thank you. That is my time.

The CHAIR: Thank you. Thanks again for appearing before us today. You spoke about the current funding models. I cannot remember how you described them, but you thought that they were inadequate. Could you tell us a little bit more about alternative funding models that you would propose or see as more appropriate?

Kat PANJARI: It does go to some of those recommendations around reform to the rate-capping system and bringing in some flexibility and nuance into that system to reflect those cost increases, and then the funding and resources that state and federal governments can apply to local governments are also the other parts of that. So there is reform on both aspects – the funding that we receive and the rate revenue that we are able to collect – because it is a very constrained context that we can raise revenue in at the local community level, particularly in those communities where residents cannot pay.

The CHAIR: Thank you. In your handout you talk about the work of councils in diversity, equity and inclusion. Could you tell us a little bit more about the importance of this work? I know as a regional MP often LGBT communities out in regional areas do not have the support or structures of, say, metro areas. Can you tell us a bit more about this work that goes on and the importance of it?

Kat PANJARI: Yes. It is fundamental to those communities, often through the youth service programs that councils fund that are not funded typically by state or federal governments. Often it is very specific project grant funding they might get from other levels of government. But they are funded by councils to ensure that those young members of their community have safe places to meet, gather and find their community. The programs that they offer are at the forefront of the changes that are happening at the social and more societal level. It does happen on the ground at a community level at those youth service areas, and then they find partners where possible, and that is easier in a metro area but in regional and rural areas there are not as many

service providers so often councils are the one-stop shop for service delivery for young people from the full diversity of our communities. I would say that that is an area of local government that is often not highlighted a lot. We have not put that in our stats, but I think we probably should as well.

The CHAIR: Thank you. I did not start the timer at the start of mine, so I think that is my time. I will go to Mrs Deeming.

Moira DEEMING: Thank you. Thank you for your presentation. We have talked a lot about how we can deal with the model of funding. I am just curious to hear your reflection on the idea of keeping a principles-based approach to council responsibilities but actually clearly defining what they are, because isn't there a way where if we actually clearly legislatively define who is responsible for what, the direct stream of funding could come from the state government instead or the federal government instead and local governments could focus on far more local service delivery programs and know what they have to fund and what they do not have to fund and what is their responsibility and what is not? I keep hearing from councillors that the problem comes around every time at budget, that there is no list of services that they are legislatively required to provide and yet they are judged on this other set of 57 measurements, so it is hard to meet their responsibilities when they are not clearly defined. I just want to know what you thought, if there was any wiggle room there, if there was any movement there or any possibility there that could also help in terms of just making things more clear so they would not be fighting for a grant or something if it was already another level's responsibility.

Kat PANJARI: I think we know there are some very specific regulated and legislated responsibilities that local governments have to meet and then there is that obligation to meet community expectations and community need at the local level, and they are some of the areas that I think you might be referring to. I think whilst guidance and clear delineation are worthwhile, we also have to ensure that our 79 councils can be responsive to their local communities and can meet the varying needs and changes that happen at their local level. So we do not want to be too defined. We want them to be able to have the capacity, and a sustainable local government could have capacity to meet those emerging needs that do arise through their communities. They are often the first place that an issue arises and then we can elevate that to seek funding from other levels of government and broaden out the issue, so I would not want to constrain the role of local government too much. But certainly if there was clearer delineation around funding and responsibilities, we would welcome the opportunity to inform that.

Emlyn BREESE: I think also where there are kinds of responsibilities put in place, there is definitely room to document that better and have a better oversight of it. There are probably 100 different pieces of legislation where councils either have a responsibility legislated or have a service delivery responsibility legislated or are governed as, you know, another organisation, and there is not a central register of that, which makes it very difficult for councils when they are setting priorities through their budget process and throughout the year, absolutely.

Moira DEEMING: I have got a report from a local government council where they were told by local government budget specialists that there is no legislative limit on what they are supposed to provide, because it is open-ended. So there are things that they are supposed to contribute to, but it is just open-ended. That is what they were told. Anyway, if it is the case that that is not correct, then that means there is massive misinformation going around, because they were very expensive consultants.

I am also just curious about the role of the MAV. I had imagined and I had been told that it was more about representing councils to government. Councillors are democratically elected to set the direction for their councils, but when I look at all these goals, they are very set goals and they are very specific and ideological; they have got United Nations goals in there and all those kinds of things. I would just love to hear – and you can take it on notice because I have run out of time – how those goals were developed.

The CHAIR: We will take that one on notice, if you are comfortable with that, just to ensure we get around.

Moira DEEMING: Yes.

The CHAIR: Thanks, Mrs Deeming. Dr Mansfield.

Sarah MANSFIELD: Thank you. Thank you so much for your presentation. During that presentation you outlined, I think it is fair to say, a number of structural issues with the funding that supports local government

that is really posing a longer term threat to the ongoing financial sustainability of all councils. If that is not addressed, what are going to be the impacts for councils and therefore for communities?

Kat PANJARI: The impact will be a reduction in services to communities that probably need them the most. 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. It is a great concern that there will be residents across Victoria that experience their community services at different levels.

Emlyn BREESE: I think one of the important things as well is 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. 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.

Sarah MANSFIELD: And when a council steps out of a service, like child care or aged care, what then happens? Who fills that gap?

Kat PANJARI: That is a really good question. Because council is often the provider of last resort, 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.

Sarah MANSFIELD: You mentioned libraries before. It is perhaps a good topic to explore the issue of cost shifting. I do not know if you can provide from your experience any information about the impact that cost shifting has had on the provision of library services.

Kat PANJARI: I think they have been well highlighted in the media. Emlyn, I am not sure if you have a specific percentage figure, but the creep from the state-funded part of libraries to local government is significant.

Emlyn BREESE: We will provide more detail on notice, but I want to say around 85 per cent of funding now is provided by local government to libraries, when it was previously a 50-50 share between council and state government.

Kat PANJARI: In any community survey that we do at a local government level, it is things like libraries that come out as being the most important to their community. They are not just about books obviously. It is a community hub and a community centre and a safe place for all of the diverse members of our community. So yes, they are vital infrastructure.

Sarah MANSFIELD: Thank you.

The CHAIR: Ms Terpstra.

Sonja TERPSTRA: Thanks, Chair. Thank you both for your presentation. It has been really interesting and very comprehensive, so thank you both for coming in. Just a question in regard to VICSES. VICSES units are mostly placed on leased council property. An MOU exists between the MAV and the Minister for Emergency Services, which was signed in 2017. These facilities support the VICSES units. For the most part we know that councils follow the terms of that MOU, which is about charging peppercorn rent or a nominal rent to the SES units for the use of those premises, but we are starting to see more councils charge SES units with a commercial rate. I am just wondering: what role would the MAV play in reinforcing the important partnership between

councils and their local VICSES units to ensure that the units can remain in those premises and continue to serve the community, especially because there has been an MOU signed? I am just wondering what your views are on that.

Kat PANJARI: Thank you for bringing that to our attention. We will have to take that on notice and try to find out where that has come from and how that creep might have occurred.

Sonja TERPSTRA: Are you aware that that is happening?

Emlyn BREESE: There has been a fair bit of work within the MAV more broadly on this issue, but it is not something that I have been directly involved in. I will have to take that on notice for you, but I am happy to do that.

Sonja TERPSTRA: That would be great. That is fine. Thank you for doing that. Also, just to change tack to a different issue, I understand that the MAV offers insurance on a range of insurance products tailored for the local government sector. Could you outline what those insurance offerings are and how they operate?

Kat PANJARI: Again I am going to have to hand over to Emlyn, or we could provide the information for you.

Emlyn BREESE: I can give kind of a broad overview. It is about professional –

Sonja TERPSTRA: You can provide it on notice if there is anything –

Emlyn BREESE: Absolutely, happy to provide more detail on notice, but it is mainly the professional indemnity and public liability insurance. It is not insuring assets for damage and that kind of thing – councils procure that elsewhere – it is about that public liability and professional indemnity insurance. So things like your building surveyor – insurance for that.

Kat PANJARI: Maternal and child health nurses professional indemnity – those sorts of services.

Sonja TERPSTRA: Sure. You may have a view about this or you may not, but I just saw a report by the ABC about Yarra council and a proposal to give a delegated authority to their CEO to look at disposing assets up to the value of \$10 million. There are also some other councils who have done that but not as significant an amount as that. I think Manningham have a delegated authority for their CEO of \$5 million. In contrast, for Monash it is \$450,000. Do you have a view about that in terms of responsible management of assets and accountability back to the community? Is that something you are seeing happening across councils, with councils giving increased delegated responsibility and authority to CEOs?

Kat PANJARI: I could not comment on the delegation to CEOs. There would be a formal process that each council would go through to determine that delegation. But the requirement to look at the asset base, to determine the future of that asset, to realise what we might call lazy assets and to repurpose those within communities is really a live issue for many councils. In fact, in terms of meeting the housing crisis at the moment, we would encourage local governments to look at their asset bases and to work with other levels of government to see whether there are strategic sites or strategic assets that could be used.

Sonja TERPSTRA: But do you think that should be something the council should be appraised of as elected councillors, as opposed to just the CEO? Is there a lack of accountability or transparency there?

Kat PANJARI: I do not think there is a lack of accountability. Having seen that through a council process and having taken a council through that process, there are very clear lines for why that delegation would have been enabled at the CEO level.

Sonja TERPSTRA: Thank you.

The CHAIR: Thanks, Ms Terpstra. Mr Mulholland.

Evan MULHOLLAND: Thank you, Chair. And thanks for coming in today. You spoke about building-regulation costs. Could you just expand on that a bit, your claim that there are really no additional resources for that? What kind of work would councils have to do, and what kind of cost is there to that?

Emlyn BREESE: Since 1992–93 in Victoria we have moved to a fairly privatised system of building regulation where if you are building something you are able to source and appoint your own building surveyor. Prior to that you would go to the council to get a building permit. Our estimate is about 90 per cent of building permits are undertaken by private industry at the moment, and that was one of the big revenue streams for a council building department that allowed them to employ building surveyors. Councils do have a broad responsibility under the *Building Act* to monitor and enforce the compliance with the *Building Act* and building regulations within their municipal district. Part of that is conducting inspections when a complaint comes through to them. Part of it will be proactive inspections of various things. We have recently had the introduction of a swimming pool register, which councils are involved in, ensuring people have their swimming pool fences checked at a regular interval. But also things like if you have a car crash into a house in the middle of the night, council needs to have the capacity to send out a building surveyor to assess whether the structure is intact or whether an evacuation of the structure needs to be mandated – there is no dedicated funding for that. There is a building permit levy which is collected on every permit throughout the state, but that funds the VBA. Currently there is the cladding rectification levy aspect to that as well, and Domestic Building Dispute Resolution Victoria collects part of that. So there is none of that funding that goes directly to councils who are on the ground undertaking a large amount of that work. We have also got a really significant workforce issue generally of building surveyors and building inspectors across both local government and private sector. There simply are not enough to do the kind of role that they are required to do under the current system.

Evan MULHOLLAND: You touched on the increase to the landfill levy in the last state budget. What will that do to local government finances? Has the government provided any indication that this additional revenue would go back to councils for waste, or are the state government keeping that funding to themselves?

Emlyn BREESE: That funding goes towards a number of state government agencies, including the EPA and Recycling Victoria. Any money left over after that distribution goes to the Sustainability Fund. Our contention is that the Sustainability Fund could be used a lot better to reinvest into the recycling and waste and resource recovery system to both prevent waste and improve the treatment of waste that does come through. We think that there is a lot of room to move there. In terms of impact on council budgets, it will go to the costs of providing various services, and that is one of the problems that we have with the recent change in approach to waste service charges. Councils will be limited in their ability to pay for that through their general rates for things which are not tied to a direct kerbside bin pick-up.

Evan MULHOLLAND: Should local government grants be provided as united funds? Rather than requiring councils to apply for individual grants and programs, should the state government, say, establish a program where funding is allocated to councils for them to determine how it is spent across various areas, like sport and child care and whatnot?

Kat PANJARI: Yes. That is part of the untied component of grant funding that we would be recommending, and there would be very transparent processes about how the decisions were made to allocate that funding. But we think that that is a more sustainable way to fund local government moving forward.

Evan MULHOLLAND: Cool.

The CHAIR: Thanks, Mr Mulholland. That is all we have time for. Any members who have other questions can ask them on notice. Thanks very much for appearing before us today. That concludes the public hearing.

Witnesses withdrew.