

# 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**

Bradley Thomas, President, and

Nathan Morsillo, Executive Member, Local Government Finance Professionals.

**The ACTING CHAIR (Tom McIntosh):** I declare open the 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 pay my respects to their 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 welcome any members of the public watching via the live broadcast.

I will introduce the committee members to you, and we will start from that end.

**Bev McARTHUR:** Bev McArthur, Western Victoria Region.

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

**The ACTING CHAIR:** Tom McIntosh, Eastern Victoria.

**Sarah MANSFIELD:** Sarah Mansfield, Western Victoria Region.

**The ACTING CHAIR:** Yes, and do we have Evan Mulholland?

**Evan MULHOLLAND:** Evan Mulholland, Northern Metropolitan Region.

**The ACTING CHAIR:** Great. As I said, other members may join us as we go.

For you both, just take note that all evidence taken is protected under 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 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 you are appearing on behalf of.

**Bradley THOMAS:** Thank you. Bradley Thomas, appearing for Local Government Finance Professionals. Also, I think it is worth noting my usual role as CEO of Hepburn shire, but I am presenting on behalf of FinPro today – just for some background knowledge.

**The ACTING CHAIR:** Thank you.

**Nathan MORSILLO:** Thanks. In a similar way I am here for Local Government Finance Professionals, or FinPro – Nathan Morsillo. The day job, if you like, is as manager, financial strategy, at the City of Greater Bendigo, or CFO for the City of Greater Bendigo.

**The ACTING CHAIR:** Okay. Thank you both for attending. We have allowed 10 to 15 minutes for you to present, and then we will have questions, so we will pass over to you to take it away.

**Bradley THOMAS:** I will start, and Nathan will ably assist me. Can I too acknowledge the owners of the lands on which we are meeting today and pay respect. Thank you, firstly, to the committee for undertaking this really important inquiry. There is not an individual that either works or plays in or visits Victoria that does not

use local government services, so I believe this is a most important inquiry for the committee. Thank you for your time today in particular.

FinPro, or the Local Government Financial Professionals, is really a volunteer-based organisation, the peak body for financial professionals within local government here in Victoria. We have all 79 councils as our members and really try to assist members in their day jobs and advocate for the sector, particularly from a financial point of view, so hopefully we can provide some insights to some of the stats and numbers that back up local government throughout this presentation.

Before I start I would also like to say I think FinPro and particularly the local government sector are really keen to work in partnership with both the state government and the federal government, and I think that is really important – that ultimately we are here for the good of our communities. We understand that, looking at the financial sustainability – and we will certainly go into a number of the recommendations and some of the things that we are putting forward – there does need to be change in both the revenue and expenditure structures of local government, otherwise there is going to be a significant impact on service delivery and particularly in infrastructure as well. Ahead of this inquiry sitting we undertook an evidence-based report that we have provided as our submission, really detailed. We have provided that to our members as well. We hope that that helps them in some of their submissions to the inquiry and helps them really unpick some of the data and the real truth behind the numbers.

I think what is really important for FinPro to really put forward is that there is lots of reporting around the financial sustainability of councils. But it is really important to unpack some of that, and we will go into a little bit more detail of that. When we look at the high-level numbers of rates or total cash it does not show a true picture of the sector and the sector's current position. I think it is really important also to note there is a massive difference across the 79 councils when you are talking really significant multimillion-dollar entities through to quite small entities, all trying to deliver really similar services for our fantastic communities, so we hope that report in detail provides a bit of a snapshot. The information that is contained in that report comes from a whole host of sources – particularly through our audited financial reports, our budgets and reporting by Local Government Victoria and VAGO – but also looks at other states and what is happening across Australia.

I think it is important to note, and hopefully this committee can work with the other inquiries that are going on at the moment. There is a New South Wales parliamentary inquiry and also a federal inquiry. I say that because I think it is important in terms of the solutions around local government, and its long-term success is not going to be fixed by one item. There are going to need to be several items looked at, particularly also taking a state and national approach to how to fund local government and what the services and responsibilities of local government continue to be. Some of the highlighted items within the report really show that the majority of councils have an adjusted underlying deficit when you back out the government capital grants, and this has been a deteriorating trend since 2016–17. Importantly to note for the committee, it is across all council cohorts. It is not just in small rural or large rural or regional cities. All council cohorts since 2016–17 have seen a deteriorating trend in their underlying surpluses. There has been a deterioration in the unrestricted cash position across the local government sector, and the ESC, the Essential Services Commission, also provided that advice to the minister.

It is important to note that the timing of government grants particularly has an impact on that analysis, especially the timing of the financial assistance grants. We know this is a federal government item. But in the past this has been prepaid, and it really does impact the reporting, particularly of 30 June. We are only a few days away from 30 June of this year, and we are still unsure around when that funding will be received, pre 30 June or post. But I think it is really important that any analysis that is undertaken by other bodies or the government takes into account the timing of those grants, because it really can distort the financial position.

FinPro acknowledges that rates are a really substantial part of local government finances – 50 to 60 per cent, depending probably on the different council groups. We acknowledge the state government's policy around the rate cap program, and we are not advocating for the removal in full of a rate cap. What we are recommending, though, is that there needs to be a review of the indicators used, the criteria that have been in place – there needs to be a review of how the rate cap system is actually working. We are calling on a local government cost index rather than the use of CPI based on projections. Effectively over the past period of time often the DTF possible CPI rates have been used. This is not a true reflection of the costs being incurred by local government and certainly does not look at what has happened over the last couple of years going forward. We think the rate cap

system needs to be looked at in terms of: how is it working for all 79 councils, for all different cohorts of councils, and particularly around how has it been effective and efficient since its introduction? There is a really vast difference in the value of an average rate right across all 79 councils. As we noted, I think it is important in terms of consideration of that local government cost index taking into account our constructions and our sector.

Some interesting stats, I think, also on the revenue side: Commonwealth government taxation over the last five years has increased 31 per cent, state government taxation 34 per cent and local government rates 16 per cent. There has been a substantial decrease over the last few years, particularly when you look at a percentage of revenue in the financial assistance grants, and we particularly call for an increase to the total pool – not just a redistribution or reconsideration between the cohorts but an increase to the pool. On the expenditure side we acknowledge councils have got a broad remit of services and capital works to undertake. Particularly the construction side in the last few years has had a really significant challenge. The cost of delivering capital works is really outstripping our rate cap. In the recent state government budget it was pointed out that the 22 per cent increase in infrastructure costs is really vastly different to the 2.75 per cent rate cap.

Why I say that is really important is because of the medium- and long-term impacts. The data that we have provided over the last six years shows that on average no council cohort has reached 100 per cent of renewal of its assets. Councils as a total cohort have not spent 100 per cent of depreciation on the renewal of their assets. When you take into account renewal, upgrade and new, local governments have spent well above that 100 per cent. But there is a massive risk that with the continuation of the financial sustainability deterioration in local government, we often as a sector go away from renewing that infrastructure. We have seen that in other states. Particularly the long-term low rating in New South Wales impacts the infrastructure. In the last six years, with record spends in infrastructure, local governments as a whole have not kept up with their renewal demands. I think that is important to note.

There are a whole range of recommendations that we made through our report, and I suppose we are particularly keen to work with state government and the federal government on how some of those would be implemented. One of the ones that we think is really important in terms of really accurate reporting and accurate understanding of the financial picture: we would make a position that the current reporting framework does not provide that to state government to make informed decisions around the financial sustainability of local government and we would push for a co-design working with the sector in terms of establishing a risk-based assessment framework for financial sustainability, and not a one-size-fits-all – how does it work across all the council cohorts? It has been successfully undertaken in a number of other states.

As noted, we really talked about the review of the rate cap system and the local government cost index and how it works. There needs to be really consideration, we think, in terms of improved reporting on the state of our assets. This data in terms of underspending and renewal gets lost in the financial statements. It is important to make sure our assets are renewed, and without a detailed report properly forming part of councils' annual financial statements, co-designed with Local Government Victoria and other entities, it is important to show where our assets currently are.

We think it is really important that some work on the previous engagement and partnership agreements between the Victorian state government and local government are reviewed and to really talk about how the solutions need to be jointly worked together and need to be far-reaching.

There are a whole range of other recommendations within our reports, but I might leave it there for the moment and am particularly happy to take any questions from the committee.

**The ACTING CHAIR:** Nathan, are you happy to –

**Nathan MORSILLO:** No, well covered. Thank you.

**The ACTING CHAIR:** All right. Yes, thank you very much for that. Mrs McArthur, we might go to you first.

**Bev McARTHUR:** Thank you. I just heard you. You want a review of the rate cap system. What about a review of the rate in the dollar system of taxing ratepayers? After all, it is incredibly unjust, isn't it? Because somebody in the metropolitan area will be paying a much lower rate in the dollar compared to somebody out in the rural and regional area. Isn't that the most unfair system of taxation we have got in this state?

**Bradley THOMAS:** I think what I would say is the rate system is complicated, and certainly the rate in the dollar is one element of that. The valuations right across our state vary, and I suppose you have that impact on the rate system. I think it is important that wherever you live in Victoria, whether you are in a metro council, in a regional city or in a rural city, you should be able to access high-quality services and have high-quality infrastructure. Does the rating system allow that? I think that can be questioned. So what I would say is the rate in the dollar, the use of differentials, the use of valuations all need to be considered as part of the review of the rating system and how the rate cap system works in general.

**Nathan MORSILLO:** Can I just add to that. I think you made the point about cohorts there, but whether you are talking about rural or metro, the rate in the dollar is one component of it, but at the moment the rate cap system is one system fits all. That might have been appropriate perhaps a number of years ago, but now that we have been within that system for some time, to us it is quite obvious that one of our key recommendations is there needs to be an approach that measures and looks and has some thought towards – whether it is rural or regional, and it could be cohorts or it could be individual locations – making that better.

**Bev McARTHUR:** But why should individual ratepayers pay a huge amount more in some areas than others? Why shouldn't every ratepayer pay the same amount of rate in the dollar?

**Bradley THOMAS:** It certainly could be considered. I think the same rate in the dollar, given the vast difference in valuations, will not achieve individuals paying the same rates in the total bill. It certainly needs to be considered. I also think it is really important to note that although we are advocating for a review of the rate system, there is still a massive capacity to pay consideration that really needs to be taken into account right across Victoria. Just the potential use of a high rate cap or a review of average rates that are applied will not necessarily fix everything, and that is why a rating and expenditure review needs to be taken and why the capacity needs to be taken into account.

**Bev McARTHUR:** Well, certainly expenditure needs to be taken into account, and in my experience in local government there were an awful lot of areas that local government did not need to be involved in and could easily get out of to save ratepayers money, and certainly state governments impose more and more activities on local government that they expect them to fund. I asked the previous witnesses, and they were not aware of it: what is going to be the cost to the municipalities that have now had a recognition and settlement agreement imposed upon them?

**Bradley THOMAS:** Thank you for your question. I am not sure around the individual costs to particular municipalities. I think it is important that councils are really there for the community and are offering a whole range of services. That is where we talk around, if there are new things that are brought into place or there is different legislation – and they might be the ones you referred to then – a conversation between state government and local government about how to best implement those items and how to work together on those deliveries and the funding of them.

**Bev McARTHUR:** Well, there was no consultation with local government. The state government negotiated those agreements with the individual Indigenous groups in certain areas, and local government now have to implement them. Clearly nobody was involved in any of the deliberations on the matter, but you are the ones that are going to have to implement the compliance costs and the aspirational costs that will take place.

**Nathan MORSILLO:** I cannot speak to the individual item, but I guess I would just reiterate the point that there is an opportunity across each of those areas that you have flagged. Whether it is called cost shifting or something else, there is an opportunity in libraries, maternal and child health, local emergency relief centres, school crossing supervisors or CCTV costs – each of those local government areas where provider of last resort has fallen to local government. There is an opportunity within those policy areas to take a whole-of-government approach to talk about them. The community do not actually say, 'Local, state or Commonwealth', they just say, 'Hey, government, how is this happening?' Anytime there is a little bit of 'Is it yours or is it ours?' then we just get in this sort of mix. I just think there is more opportunity per area to work together on shared long-term funding arrangements that work. I cannot speak to that particular instance, but for each of them, if we take a longer term approach and a shared approach with that consultation, I think there is real opportunity to do all of these better and actually make them more efficient in the long term. Just to finish off, that is in our recommendation 5. There was an agreement for how that works a while ago, and it needs to be reactivated to say, if there is a policy change coming – and perhaps, to your example, it could be something like

that – we engage early and talk about who has got what and how this is going to happen and we come to some agreement so that at least for the community it is a shared approach. But I appreciate that is not the specifics.

**The ACTING CHAIR:** Thanks, Mrs McArthur. Mrs Broad.

**Gaelle BROAD:** Thank you very much. Just picking up on that point, who would you recommend would be the best organisation to have that conversation with state government, as far as that cost shifting goes? You talked about that agreement and the need to revisit it, but who would lead those discussions? Because you have got 79 councils.

**Bradley THOMAS:** For the sector?

**Gaelle BROAD:** Yes.

**Bradley THOMAS:** I think the sector can actually work really well together, particularly where there is a cross working group. Obviously we have got a number of peak bodies that have a whole range of different actions, and we have got the MAV as the chief peak body of local government. But some of the other peak bodies – and I know you have heard from them today – are us with finance; Rural Councils Victoria, who obviously bring a real rural lens; and Regional Cities. What I would say is there is real desire between councillors, mayors, CEOs and executives to work and assist on solutions if we are brought to the party. By reaching out, in terms of creating a working group, you will get cross support. I think that is the important thing. We do not want to be metro-focused and we do not want to be rural-focused, because often the solutions or the items –

**Bev McARTHUR:** It could be ratepayer-focused.

**Bradley THOMAS:** It could absolutely have a ratepayer focus to it, and I would say that our executives and councillors are always trying to bring a ratepayer focus to all the work that they are doing 365 days of the year. So absolutely that could work.

**Gaelle BROAD:** You mentioned some of the cost shifting that is occurring, but what percentage of council budgets do you think is now dedicated to services and responsibilities that were previously managed by state and federal governments?

**Nathan MORSILLO:** Yes, that is a really tricky one to answer in a global sense. There have been reports in other states that have put some pretty high percentages on those numbers of what was state and what was federal but to local. That data is not currently available sector wide, from my point of view, that we could gather up as such to say exactly ‘This is what was this or that’. There has been a shared approach under each of those policy areas for a long time. Sometimes they have been 50–50, sometimes populations have changed, sometimes boundaries have shifted. Sometimes if you are in metro Melbourne, it may be that there have actually been services that have popped up there that the health department has suddenly picked up, or if you are in a regional town, we have an airport and other things that we are running so there are other pressures, if you like, or costs. Has that been shifted? It is very hard to do a sector number on that, probably is the short answer to that question. It is not insignificant, but I would say for each of them – I just come back to the point – that I think it is an opportunity to work better collectively together about how each of those areas is solved, because there is funding and then there is the policy outcome you are trying to get to. If we can all look at that outcome together and then work through what the best funding approach is, maybe that is more in the local government sphere or maybe that is a long-term untied allocation from state that is not a grant that only goes for two years before the next term. There may be different mechanisms under each of those areas. That is probably what I would say to that one.

**Gaelle BROAD:** That is good. You mentioned expenditure. I guess that is a very important part of this conversation, but what does FinPro consider to be those core services or fundamental functions that councils should deliver?

**Bradley THOMAS:** That is an incredibly difficult question to answer, and it is fair. There is not a legislated list of what core services are, and I am not sure there is going to be. There are certainly services that all councils deliver. I think what we would say is absolutely councils need to deliver core services, and how you describe them and define them – do we need to, even – is a question. But the 79 communities are unique and different,

and so councils still within any legislation that is set in terms of core services need to operate independently, because a community in West Wimmera has very different needs to a community in Casey. And there are absolutely a lot of things that are very similar, but you still need that independence and you still need council and elected officials in terms of councillors to drive what those important services are. So it is really difficult to say what is and what is not, and it comes back to that cost shifting. There is not a defined list of 'These are the core services; these should be local government funded or these should be state government', so it makes some of that analysis difficult to do.

**Nathan MORSILLO:** I would just add to that I think the rural and regional example is the critical one for that. They are just different in regional, and particularly regional city approaches. There are going to be different services that are required. The other thing I would say is that I think there is a hell of a lot of transparency in our annual budget process for what services we do deliver. That is a public budget process that is released each year to the community, so there is a level, to me, of transparency about those individual and local services that, if you like, are a check again against that for the local community. That is probably all I would say about what is core and not core.

**Gaëlle BROAD:** Thank you. Your submission does talk about, 'In the absence of change the short-, medium- and long-term financial sustainability of Victorian local government entities cannot be assured'. How bad is it? Should we be alarmed at the moment?

**Bradley THOMAS:** Yes, is I think the short answer to that. You have got councils right now leading into their 2024–25 budget needing to make cuts to services. I think what is important to note in terms of financial sustainability is that councils will continue to exist, but what councils are doing is trimming on the expenditure side because there is very limited ability for us to input on the revenue side of things. Ninety per cent of revenue is either rates or state and federal government grants, which we have little control around, so for the majority of councils user fees and ability to generate other revenue is really limited. Rural Councils Victoria did a fantastic report a couple of years ago which basically said across Australia and across other local governments internationally there is very limited ability to raise other revenue streams. Councils are certainly looking at that. It is where the expenditure will be cut. There are councils that have announced cuts to operations, there are councils that have announced reductions in FTE and there are certainly councils that are reducing capital works spend. That is happening today and will continue to happen incrementally over the next few years. Then you will have this impact that we have seen probably in other jurisdictions where there is really a strong deterioration in terms of infrastructure, but you will have less services being delivered to the community. That is what will go first in terms of service reductions.

**Nathan MORSILLO:** I would only add to that the medium- and long-term point, which I think Bradley has covered, that if you do not make those changes structurally to some of those vertical and horizontal imbalance points that we make in our report, the asset management deficit and gap grow exponentially. So if you are not doing – and the engineers are better than me at this – the bridges, the stormwater that helps with additional flooding that might be through different climate conditions, then all of those parts become a deficit that grows significantly each year, and other states' experiences would be that structurally if you do not get in there early for the medium and long term, that asset management deficit, if I can use those words on assets, is the one that is the bigger issue. It is probably more medium and long term, so it is less sexy. It is not immediate cash deficit stuff for some of that stuff, which is also an issue for some smaller councils. There is a medium-term need to shift the dial, otherwise we will be at a point where some of those assets will fail and we will end up needing to do larger remediations later that are not just 1 or 2 per cent changes; they will be what is needing to happen in other states and jurisdictions at the moment.

**The ACTING CHAIR:** Thanks, Mrs Broad. Ms Mansfield.

**Sarah MANSFIELD:** Thank you. Thank you for appearing today and for your submission. I am interested in understanding why using CPI as a reference point to set the rate cap might be problematic in the local government sector.

**Bradley THOMAS:** I am happy to take that one. CPI is very much based on a residential basket of goods in terms of what we are all buying, to undertake our haircuts, to buy fuel, everything like that. Councils have got a really unique set of driving cost structures. Effectively, most councils are heavy on staff numbers to deliver services, and construction can cost particularly. The cost of building things, whether that is roads, bridges,

footpaths, has a different cost input to CPI, so the data has shown that the costs of councils operating, without trying to do more or without trying to do different services, just go in a different tangent than what normal domestic CPI is doing. So when we are asking councils, and as I said, when rates are such a significant part of our revenue, capping it around that CPI we do not believe is a really good starting point, particularly when the rate cap also really looks at what it might be next year, not taking into account what it currently is and what it has been.

**Nathan MORSILLO:** I will just add one point to that because we are from FinPro, so we will say a few numbers along the way. Just over the last few years, the idea of a forward and costing index like CPI or something like it is probably correct, and that is okay, though the basket of goods is quite different. But the way the rate cap has been implemented recently is a forward-looking CPI estimate. In 2021–22, that was a 1.5 estimate, but the actual CPI ended up being 4, and the next year it was 1.75 but the actual CPI ended up being 7, and there has been no come back and look and adjust for the difference. So we have ended up with 2, 1.5 and 1.75 in the same years as we have got 4, 7 and 4.9 in actual CPI. And that is not CPI on construction; that is CPI on your general basket of goods. That gap again compounds later. Once you do not have 2 per cent – think about your own home loan or savings account. Once you miss that 2 per cent, you do not have that and it does not compound into those future years, which again is less for those renewal and other assets.

**Sarah MANSFIELD:** Yes. Thank you. And I guess on that asset renewal gap, can you provide some insight as to why that is growing and why it is becoming a problem for councils?

**Bradley THOMAS:** I think there are a couple of things in there. I think sometimes it is easier to cut capital works than services. It is tough to have those conversations with councillors and the communities around reductions in services like libraries, customer service and all of that, and so you tend to sort of say, ‘Oh, well, we’ll stop doing that one project or we’ll reduce that one road.’ Also there are real demands on growth. Communities are growing and communities are demanding more, so councils have been in a position around building that next asset, or building that next asset that is a bit bigger. So what is happening is this really short-term approach of, ‘Well, okay, if we delay that spending on that road, that looks okay at the moment. We can probably get one or two years away to build that bigger asset,’ where it is easier also to get government grants. You can get funding for new and upgraded assets. It is very difficult to get funding for renewal of assets, so the system puts us in a way to say, ‘Let’s spend money not so much on renewal,’ and as I said, because these assets are long life, you do not get that hit, but as I said, to see six years of not meeting renewal shows that there is trouble around the corner.

**Sarah MANSFIELD:** You mentioned that is showing up in other states. Are you able to provide any examples of what that looks like?

**Bradley THOMAS:** I think some of the analysis, particularly on New South Wales, is really important to note. They obviously have a really long history of rate pegging, and you can see in recent years that there have been numerous government and other entities reporting on the state of infrastructure in New South Wales compared to other states and it not being up to scratch. Over the last three to four years we have seen in New South Wales the rate cap really significantly increase. You have also seen a massive number of rate cap applications in New South Wales, something that you do not see in Victoria, because we have not quite got to that stage of infrastructure failing and services not being delivered. I know one of the commentaries is that there have not been rate cap applications and that therefore meaning the sector is financial sustainable. That is far from the truth, absolutely. We just have not reached that point, particularly for our elected officials who have to make the hard decision around a rate cap application, have to go through community consultation and have to apply to the ESC. You are not going to do that until you really, really need to.

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

**Nathan MORSILLO:** I would just reiterate that is one of our recommendations – we think that is probably an LGV lead, but it could be a few different ways: a more detailed and structured equivalent report on assets



that happens across the sector so there is another level of transparency about the state of those bridges or those roads or those dam walls or those open spaces or those playgrounds that the kids are on. It really does become quite stark when you go down to those asset levels, and one of our recommendations picks that up.

**Sarah MANSFIELD:** Thank you.

**The ACTING CHAIR:** Thank you, Ms Mansfield. Mr Mulholland, are you on-screen there? Thank you.

**Evan MULHOLLAND:** Yes, no worries. I know you have spoken about the disparate allocation and timing. Would it be a better model to have some sort of unified fund for local government rather than requiring councils to apply for different grants? Under that unified model of funding it would be left to local government to determine their priorities in terms of child care, health services, aged care, sporting services and the like.

**Bradley THOMAS:** I think the short answer is: absolutely, yes. We receive some untied funding from federal government through the financial assistance grants, and I know there was a presentation earlier on that. The quantum of the pool must increase. Local government must get a fairer take from the federal government and that side of things. In terms of state government, there are very few if any untied grants. It usually is tied to a service. That, as I said, puts council in a position where we need to make decisions around what we are applying for in particular projects. I think that contribution through an untied grant allocation is then the funding that goes towards the operations of councils, those priorities of councils, remembering that council has got a really legislative component of developing its priorities. We have to do deliberative engagement every four years in the development of a council plan and a report in that on council priorities.

**Evan MULHOLLAND:** The state government jacked up the waste levy in the last budget. Do you expect local government to see any of that funding going to municipal waste services and helping local government? Because I know there is a burgeoning cost. I will also just tack on the end: are you at all concerned by a CFMEU takeover of waste collection services at local government level?

**Bradley THOMAS:** I will take the first part, and probably the second part is not really a FinPro question. It is not for me to get into too much detail about that. On the first part, waste is a significant cost for any of the 79 LGAs however it is delivered – in house or by contract.

**Nathan MORSILLO:** It is one of the big services, yes.

**Bradley THOMAS:** What I would say is whatever the cost is, council has to pay for it. So if there are increases through the EPA levy – and there are different ways of cost generation – council has to pay for that in some format, and usually that is in terms of working through a service charge in terms of waste. Local government is always worried about costs coming from state government or federal government or industry and costs going up. Someone has got to pay for it. What I suppose we would say is that we would love to see investment through the levies going back to councils for long-term systematic change to systems, and councils are well placed to do that. I spoke about it right at the start. Local government is really well placed to help state and federal governments deliver on their policies as well – so getting that funding out of the levy and back to councils for improvements to our transfer stations and innovative ideas for how we reduce our waste streams. How do we really roll out a cost-effective measure, and not the same size suits all in terms of the four streams as well? So we would certainly love to see that funding returning back to local government and the communities which it came from.

**Nathan MORSILLO:** I would just add that, for example, the waste levy generally will be passed on through either the service charge or even at the landfill gate. The levy is another line item on the invoice that councils charge for. To an extent, if that levy goes up, it gets passed through – a component of it; it is worth saying. But there are other ones, such as the fires services levy, that are gathered by local governments on rates notices. That has also been increased recently, and that is on a local government rates notice that we then have to talk to the community about. There are opportunities to work together about how we tell that story. Through probably LGV and others, we might make sure that we are working together to know what those changes are in advance, and then there would be an opportunity to work better on how that maybe, if you like, has a better outcome for that policy area, be that waste or fire services.

**The ACTING CHAIR:** There are 30 seconds if you want them, Mr Mulholland, or we can come back to it.

**Evan MULHOLLAND:** Just a quick one. I know illegal dumping of rubbish is a bit of a crisis in our growth suburbs. Do you think that increase in costs for the things that councils have to do is playing a role in some of the financial issues? I know an increase in the waste levy seems like it would add more barriers to people legally disposing of waste.

**Bradley THOMAS:** Really quickly, I think what we do see with illegal dumping is that finance is a component to it, but there are often social, environmental and other considerations for why individuals are doing the wrong thing as well.

**The ACTING CHAIR:** Mr David Davis from Southern Metro has joined us.

**David DAVIS:** I apologise for my delay. I had a VCAT hearing today, so that is where I have been. Given that I have only heard part of your presentation, I just thought I might ask a question about the financial assistance grants. Now, tell me if I am wrong on this. They come from the federal government. The grants commission, which is ostensibly an independent body, looks at the disbursement of those. So I am interested first in whether you have any comments about the disbursement of those and the formulas there. The second one is on the amount of money that comes to the grants commission for such disbursement. What is Victoria's share of the national pie? Do you know that number?

**Bradley THOMAS:** Nathan might look up some of the numbers while I talk generally about that.

**Nathan MORSILLO:** You do the general bit.

**Bradley THOMAS:** In terms of the distribution, it is tough to get it right across all 79 councils, and absolutely as rural councils will understand and know there are other revenue streams in metro councils and that is why the financial assistance grants distribution needs to be giving greater assistance to rural councils. There is absolutely no doubt about that.

**David DAVIS:** But overwhelmingly greater.

**Bradley THOMAS:** That needs to be worked through, absolutely, in terms of the take, and it needs to take into account capacity to generate revenue now and, I think, continually needs to be reviewed. The overwhelming improvement that needs to be made to the financial assistance grants program is, I think, in two points from our point of view: consistency of the timing for the sector for understanding and a greater overall take. Local governments federally and local governments in Victoria do not get a fair share of federal government funding that is coming through.

**David DAVIS:** Do we get 25 per cent? What percentage do we get of the total cake?

**Nathan MORSILLO:** I do not have the splits by state in front of me, although I will get that in probably a few minutes and am happy to do that. In terms of Victoria versus New South Wales, I think that is one component, but I think what we would reiterate is the overall pool for local governments nationally is what needs to increase. Just to give some numbers around it, the total for financial assistance grants in Victoria was \$778 million in 2023–24 based on what I have got here in front of me, and I will take it on notice if I get any of these numbers wrong. \$778 million – so it is significant dollars, but between 2012 and 2022 it had gone from 0.76 to 0.57 of overall government revenue. So there is a significant drop, and it should be up at 1 per cent. If you like, it should be double –

**David DAVIS:** Where does the 1 per cent come from?

**Nathan MORSILLO:** From the federal government, is what we are saying.

**David DAVIS:** But on what –

**Bradley THOMAS:** Historically there was a 1 per cent allocation to funding and that has reduced over the years because there have been delays and freezing of things. I suppose a number of the peak bodies and local government would say returning to 1 per cent would give local governments a chance for financial sustainability. Even without that we have seen a really significant reduction in the last few years because of that.

**David DAVIS:** And Victoria's share of whatever the cake is? You are arguing the cake should be bigger, but I am asking what is Victoria's share? Do we get 25 per cent?

**Bradley THOMAS:** We do not have those details with us, so happy to take that offline. But absolutely Victoria should get its fair share and then Victorian local government should absolutely get its fair share.

**Nathan MORSILLO:** I have the raw numbers by state here, but I do not know that reading them out right now is going to help. We are happy to provide that in detail –

**David DAVIS:** It is actually helpful to have it in the transcript, if you can read it.

**Nathan MORSILLO:** Very briefly, there was \$778 million for Victoria last year. New South Wales was \$996 million, Queensland was \$646 million and Western Australia was \$393 million. I might stop there for now and give some percentages in a table later.

**Bev McARTHUR:** Tasmania?

**Nathan MORSILLO:** Tasmania was \$102 million.

**David DAVIS:** Right.

**Bev McARTHUR:** So we are only missing South Australia.

**David DAVIS:** We have got most of them.

**Nathan MORSILLO:** And the ACT and the Northern Territory.

**The ACTING CHAIR:** Any other questions, Mr Davis? You have got 25 seconds.

**David DAVIS:** No. In the circumstances, that is very good. Thank you.

**The ACTING CHAIR:** Okay. Thank you. I think we heard earlier, I forget who it was from, that Victoria's funding levels had risen 9 per cent last financial year on the previous, just to help Mr Davis's line of questioning. The other item that we discussed this morning that you may want to make comment on – and Nathan, you may have briefly touched on it earlier – was the three years of freezing of the indexing of CPI by the federal government from 2014 to 2017, which I presume would have been across the Abbott and Turnbull governments. We have had figures put to us that the accumulation impact of that means that Victorian councils are missing out on something like \$70 million per year. Given regional councils receive 45 per cent of the funding, they are actually missing out on \$31 million, and that figure is growing every year. Does that sound right to you?

**Bradley THOMAS:** Without the specifics of the figures, the impact of the freezing has had a long-term compounding impact. Without knowing the specific figures, the freezing of the financial assistance grants and the financial assistance grants not really growing with population significantly are having a significant impact on our financial sustainability. There is no doubt about that.

**Nathan MORSILLO:** And an oversized impact on regional and rural areas because of the way the grants are split after that. So the impact is larger in those areas than in the other areas. It is pretty well documented, that freeze and the numbers behind it, in various reports you will get over the coming week. Some of that is in our report, in the back, as well.

**The ACTING CHAIR:** And because of compounding interest that three years is felt more every year down the track, isn't it?

**Bradley THOMAS:** Yes, which is a similar argument in terms of the rate cap not being in line with CPI. With the rate cap not staying with the CPI, and particularly a CPI that is local government, if you lose it this year, you lose it next year and the year after and the year after. There is a massive compound impact there.

**David DAVIS:** Just on this issue of the sources of revenue, they have got the financial assistance grants, they have got their own source revenue and they have got state government funding and obviously the state

impact of rate capping. But just in terms of direct state payments – payments made by state government to councils – do you add those up?

**Bradley THOMAS:** I do not think we have got that detail in front of us.

**David DAVIS:** Has anyone added that up?

**Bradley THOMAS:** We would be able to provide that. We will have that detail.

**David DAVIS:** And a bit of a time series would be very useful on that too.

**Bradley THOMAS:** We would be able to provide that.

**Nathan MORSILLO:** We would be able to provide that. It is within local government annual reports. It is split between state and federal governments. We report on it already through various reports. We just do not have the summary here in front of us. But it is less than 10 per cent that is grant-funded generally, including the FA grants, so it will not be a significant component of direct funding, if that makes sense.

**David DAVIS:** Is it going up or is it going down?

**Bradley THOMAS:** It is probably hard to tell without the figures. We will get the figures for the committee.

**David DAVIS:** We will get the figures to check; that would be good. Something like –

**The ACTING CHAIR:** Sorry, Mr Davis.

**David DAVIS:** Sorry, I am just trying to understand this.

**The ACTING CHAIR:** That is okay. I will take that as your supplementary question when we go back around the room. I will just finish my time and my train of thought. I put a question to the Municipal Association of Victoria. We have been talking about the impacts of climate change on residents and on councils dealing with infrastructure damage and that delaying or actually stopping the ability to invest in new infrastructure because they are rebuilding current infrastructure. Do you have costings around the climate change impacts on all councils, particularly rural and regional councils, from these significant weather events, whether it is fire, floods or storm events, and what they are doing to their infrastructure, again coming back to that compounding effect?

**Bradley THOMAS:** We do not have the figures in front of us around responses to climate change and natural disaster events. We particularly do not have the breakdown, I suppose, between the proactive – so what councils are doing to respond – and the reactive in terms of natural disasters. What I would say is there have been a number of natural disasters – floods and, particularly, storms – right across all of our municipalities. The impact of the DFRA, or the disaster recovery funding agreements, between the state and federal governments is very burdensome for councils, and it is having a massive impact in terms of local governments getting on the ground and delivering works quickly, and there are a number of compliance issues, which makes it really tough for councils to respond. Ultimately, what we are seeing is that repair works are delayed. I think that is really something for the committee to consider, some of those guidelines. It is absolutely important to have transparency and auditability for all of those costs, but it is slowing down repair work, and our communities are being impacted and then further impacted because of the delays. Works are taking too long, and councils are not in a financial position to act as the banker, like we may have been able to do five, 10, 15 years ago. So what you are seeing is local governments delaying that work.

**The ACTING CHAIR:** Do you factor in that we are going to see more damage and more costs from climate, and do you see that political groups acting to delay action on climate change is actually basically baking in or increasing costs that will be experienced by councils through storms and other events?

**Nathan MORSILLO:** Certainly in an asset management sense it is much more effective, I think it is fair to say, to do preventative work as much as you can to respond and do excellent flood studies, great stormwater – look after renewal and make sure those assets can perform under stress across a range of areas rather than having to deal with the response when something does happen. Certainly it is much more cost-effective more

broadly to be doing the preventative work, and I think that is what councils are losing capacity to be able to do in the absence of larger programs of funds that might support some of that climate mitigation work.

**Bradley THOMAS:** I would just add I think a lot of councils now have got really strong climate and environment plans and strategies, so have really picked up that work. The challenge is funding some of the strategies and developments, and that will be increasing as their financial sustainability is further challenged.

**The ACTING CHAIR:** I will just take my supplementary now. Do you think that those plans would be able to deal with, say, a 2-degree increase in average temperatures and the weather events that that would bring?

**Bradley THOMAS:** It is probably getting outside of the remit of FinPro to answer that one really accurately. What I do think is local governments are trying to respond to a whole range of social, environmental and economic challenges, and so councils are really well placed with inclusion strategies, climate adaptation strategies and a whole range of others. We try; whether we can will be a real challenge for us.

**Nathan MORSILLO:** I would only add to that that in terms of responding in a DRFA sense, betterment for those assets that have been hit so that you are ready and willing next time to do it properly is important. So adding and making sure betterment is just an accepted, trusted third level of government rather than the sort of administrative process we currently have for DRFA seems like an obvious one to me, and I cannot quite understand what the win is from a policy point of view for the level of administration required to get some of these things done. I am conscious that is not specifically in the terms of reference of this committee, but that I think is a part of what would help in that space.

**The ACTING CHAIR:** Sure. Do we have any 1-minute supplementaries?

**Sarah MANSFIELD:** I have got one. You mentioned before that you would recommend Victoria consider developing a risk-based assessment for financial sustainability. You said some other states have done that well or provide good examples. Can you say which states they are?

**Bradley THOMAS:** Queensland has done one really recently, so I think that would be a good starting point. South Australia has got some examples as well. I think they would need to be nuanced to Victoria – local government is different between states – but it is a good starting point.

**Nathan MORSILLO:** They have done an engaged process with the sector on that, so there is a path to follow. Whether it is LGV or however that happens, to me it seems like a straightforward next step.

**Sarah MANSFIELD:** Great. Thank you.

**The ACTING CHAIR:** Mrs McArthur.

**Bev McARTHUR:** Local government have the capacity to cut their costs in a number of areas, don't they? I mean, we see extraordinary salaries being paid to some CEOs – Geelong's for instance is greater than the Premier's at the moment and to rise to greater than the Prime Minister's. At the same time we have got monitors in place at \$1200 a day at ratepayers expense. We have got EBAs being negotiated that are way outside what could possibly be negotiated, even when you have a 20 per cent or 15 per cent local government award, which is higher than any other award elsewhere, isn't it? I mean, if you are a nurse in the local government area, you will be on a local government award, not a nurses award. So you are paying more for your wages in local government. You do have the facility to look at some of your costs, don't you?

**Bradley THOMAS:** I am happy to take that. I can guarantee you there is not a CEO and not an executive team across the 79 councils that are not actively looking at how they reduce costs, how they improve services. That is a day-in, day-out conversation in the local government sector and has been for a very long time.

**Bev McARTHUR:** Do you support these very high salary payouts for CEOs?

**David DAVIS:** Not as high as the Governor-General.

**Bev McARTHUR:** No, the Geelong one is going to rise to about that figure.

**David DAVIS:** As high as the Governor-General?

**Bev McARTHUR:** Yes, \$700,000.

**Bradley THOMAS:** I will not comment on the specifics of an individual's pay; it would not be appropriate to. What I would comment on is that all staff in local government work incredibly hard under often difficult circumstances to prepare organisations and deliver services for our communities. You do not meet many people working in local government that are doing it for the money; they are doing it as part of their community. Absolutely, local government understands that the solutions are not to look to other tiers of government for everything. We are willing to put our hand up and say we need to make improvements. I can assure the committee that is happening day by day.

**Bev McARTHUR:** Well, if government has imposed monitors on councils, should the government pay for them, not ratepayers?

**Bradley THOMAS:** I will leave that one for the government to consider.

**Bev McARTHUR:** Well, what do you think? You are the financial experts.

**The ACTING CHAIR:** I think Mrs Broad has one to put on notice. We have actually already gone over time.

**Gaelle BROAD:** I am just interested because you did mention that the rate cap has been lower than the CPI, by the state government, and you talked about the cost shifting and the increasing expectations that the state government is putting on local councils to deliver. I am interested, and I am happy for you to take it on notice: with the state government's budget blowing out, spiralling – a huge amount of debt, \$188 billion – do you feel that councils are the meat in the sandwich in that? Are you concerned about the level of state debt and the impact that that could have on local councils?

**Bradley THOMAS:** Really quickly, what I would say is that communities want great quality services and capital works, and if councils cannot get that revenue from either services or government grants, state or federal, the communities are going to be concerned. So absolutely, in the long term, where councils' funding is coming from is something that we are concerned about.

**The ACTING CHAIR:** Thank you both very much for attending. We have gone right to the wire. There is lots of detail to go through. Thank you for your time.

**Witnesses withdrew.**