

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

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Sonja Terpstra

PARTICIPATING MEMBERS

Gaelle Broad

Georgie Crozier

David Ettershank

Michael Galea

Renee Heath

Sarah Mansfield

Rachel Payne

Richard Welch

WITNESSES

Mike Gooley, Executive Director, Local Government Victoria, and

Colin Morrison, Executive Officer, Victorian Local Government Grants Commission, Department of Government Services.

The CHAIR: 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 also welcome any members of the public watching via the live broadcast or in the public gallery.

To kick off, we will just have committee members introduce themselves to you. We will start 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 Metropolitan Region.

Sarah MANSFIELD: Sarah Mansfield, Western Victoria Region.

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

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan.

The CHAIR: Hey, Evan. Sorry, I did not know you were up there.

Thank you 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. You will be provided with a proof version of the transcript following the hearing, and then transcripts will ultimately be made public and posted on the committee's website. For the Hansard record could you both please state your full name and the organisation you are appearing on behalf of.

Mike GOOEY: Mike Gooley, Executive Director, Local Government Victoria, part of the Department of Government Services.

Colin MORRISON: Colin Morrison, Executive Officer, Victorian Local Government Grants Commission.

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

Mike GOOEY: Thank you. As per you, Madam Chair, I acknowledge that we are on the unceded lands of the Kulin nation, and I pay my respects to elders past and present.

Thank you very much for the opportunity and the invitation to come and present to the committee. What we will do is just run through the role of Local Government Victoria, council funding and finances and then the financial assistance grants. My colleague Mr Morrison is the Executive Officer for the grants commission that looks after that. So we will just run through a quick set of slides and touch on a few issues that are relevant for this committee.

Visual presentation.

Mike GOOEY: Local Government Victoria is a business unit within the Department of Government Services, and the main responsibility for LGV is to advise the Minister for Local Government within the local government portfolio, which oversees the local government Acts. It has a range of functions and responsibilities – obviously policy advice and administering the relevant legislation. Whilst there is a *Local Government Act 2020*, that is read in conjunction with the 1989 Act, and then there are associated Acts and regulations that sit with that. As a part of that, the role of LGV is to work collaboratively and closely with the 79 local governments and in particular the peak bodies, so obviously the Municipal Association of Victoria, the VLGA and the peaks that you will be talking with later today, to ensure that there is a responsive, accountable and efficient system of local government in Victoria to deliver a range of programs, projects and services that meet the needs of local people. The other important part, which is why Colin is here today, is that Local Government Victoria hosts the Victorian Local Government Grants Commission, which is a significant part of the funding set up for local government.

Just in particular regard to local government finances and funding, as it is up there on the slide really very clearly, one of the key responsibilities that the Minister for Local Government has is setting the annual rate cap under the rates mechanism. The Local Government Victoria role, the departmental role, is to ensure that the administrative process that is set out in the Act is followed appropriately, so that includes the seeking of advice of the Essential Services Commission and then the provision of a detailed briefing and recommendations to support the decision-making. The rate cap obviously will be a major part of the considerations of this committee, I am sure, and it sets the limit on the annual increase of councils' main revenue stream with regard to property rates and charges.

The other thing that Local Government Victoria does is administer a range of other grant programs. Some of them sit directly within our portfolio, but we also do some other portfolio programs. Those are such things as libraries, council emergency management, the Aboriginal community infrastructure and a few other programs as well.

We thought that this might be just useful. This is taken from the Auditor-General's report, which has breakdowns sort of at a statewide level. The numbers are very small and a long way away – my apologies. The graph basically breaks down the total revenue for Victorian councils – how it is at a statewide basis – as they were audited by VAGO for the 2022–23 year. The collective total revenue across the 79 councils was \$13.64 billion. The graph shows that 52 per cent, or about \$7 billion, of that total is revenue that comes from rates and charges, so that is the main part of the chart that is up there. The next most significant revenue stream is government grants, which is about 19 per cent –

Bev McARTHUR: Is that the yellow?

Mike GOOEY: Yes, that is right, so 19 per cent of the total revenue. The composition of the revenue varies across individual councils, and my colleague will talk about that in a minute when we get to the financial assistance grants. But, as I said, these are the statewide aggregate numbers that show Victorian councils receive most of their revenue from rates and charges and government grants. It is probably worth noting that there was a recent review of the rating system, which was in 2019, so we can provide a copy of that report to the committee. That final report was published in December 2020 and there were 56 recommendations, of which I think 36 were supported in full, so there has been a program of implementing those over the last little while as well.

Again, my apologies, this is such a small chart to be looking at on a wall, but I am assuming the presentation will be circulated. This really just shows how those key revenue streams for various Victorian councils are broken up across five council cohorts. Of particular note is probably that the metropolitan councils collectively receive over 60 per cent of their total revenue from rates and charges. Metropolitan regional city councils

receive a relatively higher proportion of their total revenue from user fees, so that is gyms and aquatic centres and those sorts of things. For regional cities, large shires and small shires, these councils have relatively higher reliance on government grants than their metropolitan and interface counterparts, and small shires receive over 45 per cent of their total revenue from government grants. Again, Mr Morrison will talk a bit about that when he gets to the financial assistance grants. Interface councils receive a relatively large proportion of their total revenue from contributions of non-monetary assets. These are typically gifted assets from developers, so it is part of the transfer of development, and that is roads, footpaths and drainage assets that are transferred upon the completion of works. The way in which local government accounts run and the way in which VAGO assess them is using Australian accounting standards so that there is a level of continuity and comparability across the sector. Similarly, cash contributions from developers are a relatively high proportion of total revenue for the interface councils. That is just a very quick summary of the split there.

Rate capping of course – the mechanism was introduced in the 2016–17 financial year. The rate cap amount is based on the consumer price index forecast for Melbourne, published by the Department of Treasury and Finance each December as a part of their midyear budget update. The Minister for Local Government, as part of the legislation, must seek the advice of the Essential Services Commission in order to set the rate cap, which needs to be set by 31 December each year for the following financial year. Following the receipt of that advice the minister may set a rate cap. She must receive advice from the ESC but she need not take it, if that makes sense. The minister is not bound by it, so it is a discretionary power.

The cap applies to the total rates revenue for the council. It is about the rates that are applied to individual properties, and obviously then individuals' rates are actually dictated by the valuation of their properties. The legislation requires that the rate cap mechanism is subject to periodic reviews. The first review of the rate cap mechanism was conducted in 2021 – again, we can provide a copy of that to the committee – and the next review is scheduled to take place in 2025.

One of the key sources of data that will come to this committee is of course the Auditor-General's report. Every year the Auditor-General undertakes a review of the finances of local government. There are some statements – this is from the results from the 2022–23 audits of local government, as tabled in Parliament. The report summarises the findings of the Auditor-General. The most recent round of financial audits provides commentary on the finances, and collectively the financial performance improved slightly but would have declined if the Australian government grants had not been advanced 100 per cent in terms of coming in the year before they were due to fall. They also found that council balance sheets remained strong over the short term and their financial health is fine. However, the Auditor-General noted that longer-term challenges that require sound financial planning and management are required. Again, that will be an important report for this committee to consider.

I will hand over to Mr Morrison, who will talk about the Commonwealth grants.

Colin MORRISON: Thanks very much, Mike. Chair, I will be quick in the interest of time. I did want to just talk very briefly about the financial assistance grants which flow through from the Commonwealth government. Those financial assistance grants are a vital form of financial support for Victorian councils generally but particularly for those in rural and regional areas. The funding provided comes through in two streams, a general-purpose grants stream and local roads grants.

In Victoria the role of preparing recommendations to the Commonwealth for the allocation of the funding that is provided falls to the three-member Victorian Local Government Grants Commission, of which I have the privilege and pleasure of being the Executive Officer. The commission's recommendations must conform with the set of national distribution principles, of which the key element is relative need. The core of what we do is to allocate the available funds, which was around \$750 million in 2023–24, on the basis of the relative needs of councils.

I will talk briefly about the quantum of funding. The national funding pool is generally indexed in line with both national population growth and the rate of inflation. In 2023–24 the increase of 9.9 per cent nationally was well above the historic average and reflected the high rate of inflation that was occurring at that time.

This chart shows the movements in the national funding over a 20-year period. In particular it shows the impact of the decision taken in the 2014 federal budget – in about the middle of the chart there – to freeze the

indexation of the national pool for three years, that is, not to apply the usual rate of indexation. While indexation was resumed in 2017, it was from that paused or frozen level, which means that funding for Victorian councils is now around \$70 million less per year than would have been the case had indexation not been frozen for that three-year period.

This map actually follows on from the two charts that Mike put up earlier and shows that the financial assistance grants provided by the Commonwealth are a vital source of revenue for Victoria's local government sector as a whole. They comprise about 6 per cent of the recurrent revenue of councils. However, they are far more important for rural councils than they are for metropolitan councils, as shown on this slide. You can see there from the yellow on the lighter shading in the metropolitan area where the financial assistance grants generally represent less than 5 per cent of revenue, and in some cases as little as 1 or 2 per cent. Going through to the green shading, the darker green shading shows those councils that rely on this form of funding for at least a quarter of their revenue. We have five councils – five of our smaller rural councils – that actually receive close to 30 per cent of their revenue from the financial assistance grants. The commission is acutely aware of the importance of these grants for the financial sustainability of rural councils, if I could touch on it briefly, and has taken a number of measures in recent years to increase the grants to rural councils relative to metropolitan councils wherever possible.

Thanks, Mike. As I touched on earlier, all state and territory grants commissions are required to base their recommended allocations on a set of national distribution principles. However, locally in each state and the Northern Territory there is some flexibility as to the sorts of factors and needs that are taken into account. These principles require that grants are allocated on the basis of horizontal equalisation, or as the Victorian commission interprets it, on the basis of the relative needs of councils to receive financial assistance. There is also a requirement that is in the Commonwealth legislation that requires all councils to receive a general-purpose grant that is no less than 30 per cent of the amount that would be received if the entire pool was allocated on a per capita basis. That means that we have around 17 or 18 metropolitan councils that do receive a higher general-purpose grant than would be the case if the whole pool was allocated on the basis of relative need.

Just touching very briefly on the two streams of funding – first, the general-purpose grants, which were just over \$550 million in 2023–24. As I said, we allocate these on the basis of relative need. This involves an allocation formula that we have developed in consultation with councils over the years and modified over that time to incorporate a range of information about each local government area, the characteristics of the council and the characteristics of the community that that council serves. You can hopefully see again in the very small two charts there some of the characteristics that we have taken into account – factors such as population dispersion, remoteness, level of tourism, environmental risk and risk from bushfires and floods et cetera. Just showing some of the factors there – and again the detail will be difficult to see – for East Gippsland some of the real stand-out needs there are obviously remoteness, a highly dispersed population and high risk from bushfire and flood, whereas for Melton the higher needs tend to relate to population growth and proportion of the population that is aged under six years, for example. These are some of the factors that we take into account in the model.

Turning to the results on the – next slide, thanks – you can see that the grants for 2023–24 ranged from a low of \$370,000 for the Borough of Queenscliffe through to about \$23.5 million for the City of Casey. But probably a more meaningful comparison is when you look at the grant outcomes on a per capita basis, the average for Victoria being just a little over \$83 per capita. The actual outcomes across the state on a per capita basis range from that minimum grant level I talked about earlier of just under \$25 per capita, being 30 per cent of the state average, through to a high of over \$1000 per capita for West Wimmera shire out on the South Australian border, which we deem to have the highest relative needs of any council in the state on a per capita basis.

Thanks, Mike. This final map here just shows again that range of outcomes across the state on a per capita basis. It goes again from the yellow-shaded councils, which are those councils receiving that minimum grant level, through to the councils in green, with the lightest green showing \$250 to \$300 per capita, and finally to the darker green, which shows the seven councils in the state that receive general-purpose grants equivalent to over \$500 per capita. We often say this to councils when we are talking to them. If you look at or think about the common characteristics of those councils, they all have very small populations, each individually less than 8000 people; a very large area, each individually greater than the Melbourne metropolitan area in area; long lengths of local roads to serve; a small but highly dispersed population; a very low capacity to raise revenue

from rates; and often issues around socio-economic disadvantage as well. Those are all the things that tick the boxes, if you like, in terms of the commission's assessment of relative needs. So to the commission, it is those councils that have the highest relative needs in the state of any councils, and therefore they should be the recipients, and therefore are the recipients, of the highest grants in the state on a per capita basis.

Just very briefly, there is one slide on the local roads grants, which is the second of the two streams of funding – around \$197 million in 2023–24. The Commonwealth requires the commission to recommend an allocation that is based on the relative needs of councils for maintaining the road networks that they are responsible for. The commission's formula takes account of the length of local roads in each municipality – obviously the bulk of that length lies in rural councils – traffic volumes carried on local roads and a range of local characteristics, including climate, freight, subgrade conditions et cetera. You can see there at the bottom of the screen the extremes of the grant allocations for 2023–24.

Finally, a couple of slides just show the relativities between groups of councils. This just shows the movements in grants for 2023–24. As I said, the state average increase, which is the yellow line there, was about 9.9 per cent. The aggregate increase for interface councils, which was heavily driven by much stronger population growth, was above that level – 13.8 per cent. But the commission did all it could to bring in the results for rural councils and for regional centres very close to that state average increase. All three of those groups received increases of over 9 per cent, whereas the increases for the bulk of the non-interface metropolitan councils were 6.9 per cent and 7 per cent respectively.

The next slide just shows the shares of grant outcomes across the state. The pink there shows the shares of population for each of those six groups of councils, and the red there shows the shares of grant outcomes they receive. So if I could draw your eyes across to the two sets of columns on the right, you can see that both the large rural and small rural councils, the group of 40 councils in total, comprise between them about 13.3 per cent of Victoria's population but now receive around 45 per cent of the total financial assistance grants pool. So the total funding is certainly skewed very heavily towards the rural councils, which just simply reflects the commission's assessment that those councils, when compared to their metropolitan counterparts, have the highest relative needs in the state and also that those needs on a relative basis are increasing over time.

This very final slide here just shows the changes in total grants – that is, general purpose and local roads – on a per capita basis over time. Again, apologies for the size of the text there. If you draw your eyes to the group of data down the bottom there, it just shows the increases to the metropolitan councils over a 10-year period, which has been relatively stable, whereas the increases for the small rural councils, in the red, and the large rural councils, in the blue, over that period of time have tended to be up. That simply reflects the ongoing movement of funds through the commission's recommended allocations from metropolitan councils to rural councils, essentially by capturing the increase in the pool from year to year and ensuring that the bulk of that increase is directed to rural and regional councils.

Chair, I will leave it there.

The CHAIR: Wonderful. Thank you very much for that. Members, we have 35 minutes and eight of us here, so we might just start with one question each and then go around again if there is time. I have set the timer for 3 minutes. I will start down this end with Mrs McArthur.

Bev McARTHUR: Thank you, Chair. Thank you, gentlemen. Property taxing by way of rates in Victoria is the only tax that is not the same no matter where you live. The rate in the dollar that a council can set varies dramatically. For instance, say in Stonnington it might be that a million-dollar property will attract a rate of a thousand dollars, whereas in the Buloke shire a million-dollar property would probably be at \$6000. So it is a very unjust way of taxing Victorians – the only tax that is not the same no matter where you live. Do you agree that the property taxing system that is local government rates is unjust?

Mike GOOEY: That is probably not really a question for us to answer, Mrs McArthur, in the sense that we administer the system. The rates are based on the property value, and the system and the format for those are set out in the legislation and regulations.

The CHAIR: You have got time for one more.

Bev McARTHUR: One more. Okay. What has been happening to local government is cost shifting dramatically. The state government continually impose programs onto local government. They start with maybe a capital injection – say, free kindergarten, for example, but it is not totally free because the ratepayers have to pick up the bill for the extraneous services that are associated with the facility. There are many areas where we might have started with 70–30 in, say, library funding and now councils are paying the great bulk of it instead of the state government. Is cost shifting an issue for local government?

Mike GOOEY: Again, probably we are the wrong people to ask, Mrs McArthur, in the sense that we administer the regulations and the legislation. Certainly, though, we work across other portfolios, be it health, be it education or whoever else is putting funding into local government, to help have conversations with other portfolios around how programs are formed. But it is certainly not a decision for us. In the end decisions by councils themselves about how services are prioritised is an important part of it.

The CHAIR: Thanks, Mrs McArthur. Mrs Broad.

Gaëlle BROAD: Thank you very much for your presentation today. Looking at the terms of reference, it talks about whether local councils are adequately delivering on their core service delivery objectives. What does the department consider to be the fundamental functions of local councils? What are they expected to deliver?

Mike GOOEY: As a part of the administration of the Act we look after the LGPRF, which is the Local Government Performance Reporting Framework, which has a series of things which we actually work with local governments on across the sector to identify what the key performance reporting should look like across the sector. There are a range of things which are set in that. It is a common set of both financial and service performance indicators. They are all publicly recorded on the Know Your Council website. As a part of that, then, those indicators are reviewed every three years. This calendar year we are actually in the middle of the triannual review, so there will be a refreshed set of those indicators at the beginning of next year after it has been through a committee process. The important part is that that performance reporting is integrated as a part of the legislated local government planning and reporting cycle, so there are a range of things that sit within that. Again, I think it sets about 59 performance measures. I will not bore you with going through all of this, but we can certainly provide that to the committee.

Gaëlle BROAD: Thank you.

The CHAIR: Ms Broad, you have time for one more, if you would like to ask it.

Gaëlle BROAD: Do you have a list of the most financially at-risk councils?

Mike GOOEY: Financially at risk – we certainly have a sense, through the commission's work, of the revenues. In terms of risk, that in some ways might come down to the risk appetite of councils themselves and what decisions they might make, so there is probably a set of questions. We do not have a line of sight to that specifically. But what we do at Local Government Victoria is we work with the Auditor-General and we review the annual reporting as well as looking at the business plans for local councils as they go forward. Then we actually have a look against the financial performance indicator set.

The CHAIR: Thanks, Ms Broad. Mr McIntosh.

Tom McINTOSH: Thanks to you both for being here. Colin, for you, I just want to confirm something. You said the grant allocation for last financial year was up 9 per cent on the previous year.

Colin MORRISON: That is right, yes.

Tom McINTOSH: Right. Okay. That is great. And the rural grant funds comprise about 45 per cent.

Colin MORRISON: Correct. That is right, yes.

Tom McINTOSH: Okay. Then another point you made was that Commonwealth indexation was paused between 2014 to 2017. Is that right?

Colin MORRISON: That is right, which is sort of the flat part of that pie chart that I had up earlier.

Tom McINTOSH: I forget the specifics of the theory from our scientist from a century ago about the power of those percentages coming up. What has that impact had on the subsequent decade to the funds going to councils?

Colin MORRISON: Yes. Had that line, that upward trend prior to 2014 continued over that three-year period and then beyond, the funding for Victoria, by our estimates, would be about an additional \$70 million per year. That amount is actually growing slightly over time as well. It was \$70 million probably about two or three years ago; it is probably closer to about \$75 million per year now. That is because the indexation, when it resumed in 2017, was at that paused level rather than at the higher levels. So essentially if you were to draw two trendlines on the chart – I will not get too technical here – you would have an actual that is to the tune of \$70 million a year below what it would have been –

Tom McINTOSH: Einstein's theory of compounding interest.

Colin MORRISON: Correct. That is right.

Tom McINTOSH: \$70 million a year – and we have said 45 per cent of the grants funds are going to rural councils, so they are missing out on something to the effect of \$30 million to \$35 million a year?

Colin MORRISON: As a rough estimate, that is probably pretty good.

Tom McINTOSH: Wow. I am just trying to think – that was the period of the Liberal–National coalition federal government, if my memory serves me correctly. All right.

Bev McARTHUR: I could see where that was going, Mr McIntosh.

Tom McINTOSH: I think it is an important thing to point out.

Bev McARTHUR: Yes, very important.

Tom McINTOSH: Well, no, I think it is, Mrs McArthur. You wanted to raise questions about –

The CHAIR: You have 45 seconds left.

Tom McINTOSH: People on this panel wanted to raise questions about fairness and just outcomes, so I think that was good to go through. Thank you very much, Chair.

The CHAIR: Wonderful. Thanks, Mr McIntosh. First of all, thank you for your presentation and how much detail you went into and for appearing before us today. You went into detail obviously about rural councils receiving more of the grant funding and significantly more. Could you tell us in a bit more detail the reasons why this is and some of the challenges that rural and regional councils are facing as opposed to their metro counterparts?

Colin MORRISON: Absolutely, Chair. It simply comes down to the commission's assessment that the delivery of services for rural councils – and I am talking generalities here – is more expensive on a per capita basis than it is for metropolitan councils. That is for a whole range of reasons. It might be economies of scale. It might be the fact that rural councils have a highly dispersed population and they may need to be delivering, say, maternal and child health services to four or five different locations across a shire that has only 10,000 people, whereas in a metropolitan context those 10,000 people would be probably served by one maternal and child health centre and nurse. It is also, on the flip side, reflective of the fact that rural councils in general have a lower capacity to raise revenue from their own sources, being both rates and charges but also user fees and charges. Those two capacities, if you like, are both taken into account in the commission's formula.

The CHAIR: Yes. Great. Would you be able to give us an example of one of those councils that has that challenge?

Colin MORRISON: Yes. If you were to think about those six or seven sort of dark green shaded councils I had up before, which is really that group across the Wimmera and Southern Mallee – Hindmarsh, Yarriambiack et cetera – councils with less than 8000 people but generally three or four significant townships and a highly scattered rural community as well, those councils are still delivering library services, maternal and child health

services, planning and building services and collecting waste et cetera across those municipalities. So it is a highly dispersed population and a very large population with significant distances for the waste vehicles to travel et cetera. All of these are just simply going to add to the costs of those councils on a per capita basis compared to a population of, say, 8000 people in a metropolitan council. Then as I say, it is those councils then that also have a relatively much smaller capacity to raise revenue from rates and from user fees and charges as well. They simply do not have access to, say, the streams of funding that a number of metropolitan councils have from parking fees and fines, large recreation centres et cetera.

The CHAIR: Okay. Wonderful. Thank you. That is my time. Mrs Deeming.

Moira DEEMING: Thank you. Thank you for your presentation. I was just wondering about the fact that on average around about 50 per cent of councils' revenue is from rates, and I was thinking about your 59 measures. You can take it on notice. I am just trying to work out: those 59 measures of service area, are they covered by that basic 52 per cent, on average, or is it –

Mike GOOEY: It is spread across, because obviously the decision is made by council about how funding is split, so service rates and charges –

Moira DEEMING: I just mean could it be covered – the costs of those 59 services, on average – if you had the average cost of those services across councils? You have got the average revenue of services across councils. I was just wondering whether there is a disparity between how much those services cost to deliver versus how much they are getting in terms of just from rates.

Mike GOOEY: Off the top of my head – we can have a look at the data and we will take that on notice.

Moira DEEMING: That would be fantastic.

Colin MORRISON: But I would suggest – again, off the top of my head – that it would not be sufficient, simply because of the revenue the councils are so dependent on from, like I was saying before, user fees and charges, but also both Commonwealth and state funding as well. Some of it is untied, such as Commonwealth funding. Some of it is tied to specific service areas, particularly for the state.

Moira DEEMING: Yes. I have noticed that in the *Local Government Act* it is not legislated clearly what the core business of local government is, but they are measured by these specific 59 areas. Are you guys able to provide also a list, with the 59 measures, of what the contribution percentages are from Commonwealth and state sources, on average?

Mike GOOEY: For each of those services?

Moira DEEMING: Or if they are – so if you have got libraries and there is a split, if there is an arrangement, I would just be curious to know what the split is across those.

Mike GOOEY: We do not have that level of detail. Even going through annual budgets or annual reports from councils, that level of detail I do not think is available, Mrs Deeming.

Colin MORRISON: And also the Commonwealth funding, for example, is untied, so councils can apply it as and where they each feel necessary. One council might apply a significant portion of those funds to its library service, whereas another council might not for whatever reason.

Moira DEEMING: With the grants?

Colin MORRISON: With those grants, because they are untied. And because they are untied, we cannot and do not require councils to acquit those or report in their annual report as to how they actually apply them.

Moira DEEMING: And is there a required contribution, state or federal, for specific services for local government, for these 59, or is that negotiated, do you think, individually?

Mike GOOEY: No. Some funding is tied to specific programs, so libraries are an obvious one in some of the state –

Moira DEEMING: But the split of it, the actual –

Mike GOOEY: No.

Colin MORRISON: No.

Moira DEEMING: Interesting. Okay. Thank you.

The CHAIR: Thank you, Mrs Deeming. Dr Mansfield.

Sarah MANSFIELD: Thank you. Thank you for your presentation. We often hear different narratives around local government – their financial health and sustainability. We have heard relatively recently that councils are financially stronger – that has been coming out of government – but that is based on an assessment of their cash holdings, which the local government sector will tell us is actually quite restricted. Those cash holdings are committed to perhaps infrastructure projects or other kinds of partnerships. The timing of those financial assistance grants as well can affect what the financial position looks like for councils. I am just curious about your assessment – do you support those statements that councils are financially strong, or do you think that what the sector is telling us about there being a masking of a more dire position for councils is actually the case?

Mike GOOEY: Thank you, Dr Mansfield. I think you are right. The assessment from the Auditor-General is that the sector overall has strong balance sheets, but the Auditor-General does make the point really clearly that looking into the future there need to be really strong management frameworks and priorities made by councils about what expenditure looks like. There is certainly the issue – and you will hear it a lot as the committee goes through the discussion of unrestricted cash – that there is low unrestricted cash because it is tied up with development contributions or whatever. But again I think it does come down to the question of priorities that are set by council. It is in the hands of council about what sets of services and infrastructure they invest in.

Going back to Mr Morrison's point, though, really clearly there is a significant difference between the type – whether you are a metro, an interface, a rural or a regional council – and the flexibility and ability certainly for regional and rural councils is much more constrained. So the pressures in terms of financial sustainability are different across the different councils. It is a much more nuanced view than either 'We're all doomed' or 'The sector's fine'. It is actually about careful management.

Sarah MANSFIELD: You are talking about managing their costs and making decisions about what they provide, but a lot of those things are commitments that councils have made, whether it is around asset renewal – they have got an obligation to maintain and renew assets. The way that the rate cap is set does not necessarily reflect the costs that are actually borne by councils. CPI I think many would argue is not a great measure to use to determine a rate cap when the types of costs borne by councils are things like labour, construction materials – not a basket of groceries. I am just wondering about your thoughts about that.

The CHAIR: We are short on time.

Mike GOOEY: Just very quickly, Chair, that is an ongoing conversation. Certainly the current legislation just requires ESC to provide advice, and they tend to tie their advice to CPI. That is a question of whether or not – as in the water sector, a lot of their escalation is actually built on a proposition of what infrastructure costs. That is not a question for us to answer, but it is an important observation.

The CHAIR: Thanks, Dr Mansfield. Ms Terpstra.

Sonja TERPSTRA: Thanks, Chair. And thanks, Mike and Colin, for your very comprehensive presentation. A lot of the questions I had have actually been answered by your presentation, but I will try my best. In regard to rate capping – and I note your earlier remarks that the minister gets advice from the Essential Services Commission and then makes a decision about rate capping. Are you able to tell us: in the last financial year has there been an increase in the amount of councils who have applied to increase their rate cap and then, by way of comparison, say within the last five years? What are you seeing in regard to that? Is there an increase in that?

Mike GOOEY: There has not been in the last financial year or for the coming one. I think 2019 was the last time there was an application made by a council.

Sonja TERPSTRA: Again, without naming names, are you seeing inquiries perhaps from some of the councils? You were talking earlier about some of the more rural and remote councils that see that they get more assistance from, say, Commonwealth grants because of their kind of special characteristics in comparison to, say, city councils or metropolitan councils. Are you seeing any inquiries or further calls for assistance in regard to those things from those councils?

Mike GOOEY: It is fair to say we do not get the inquiries. They go usually to ESC. There have not really been any escalated conversations across the sector that we have heard through our networks. That is probably the reality.

Sonja TERPSTRA: In regard to the application that was made for an increase, was it from a rural or regional council or from a metropolitan council?

Mike GOOEY: I will just actually have a look, Ms Terpstra, at the listing I have got here. The last one that was approved in 2019 was Warrnambool City Council. Prior to that, there was one in 2017 for Towong shire and West Wimmera shire in 2017.

Sonja TERPSTRA: Okay, thanks. Just a question on the interface councils – my poor memory serves me very incorrectly, most likely. I reflected on the graph that you put up about the different councils and the interface councils. I am interested in the interface councils. They seem to have a lot of demands on them, and they also then get other assistance through interface grants and those sorts of things. What are some of the pressures that those councils are seeing that they are then reaching out for financial assistance for? What are you seeing with those?

Mike GOOEY: It really just comes straight down to population growth and the associated services that they are required to provide.

Sonja TERPSTRA: Okay. I think I have got 14 seconds left, so I will move on. That is okay.

The CHAIR: No more questions?

Sonja TERPSTRA: No, if we have time we will come back around, but that is fine.

The CHAIR: Thanks, Ms Terpstra.

Sonja TERPSTRA: I want to keep to time. It is important.

The CHAIR: Wonderful. Mr Mulholland.

Evan MULHOLLAND: Thank you. In which specific areas have federal and state governments transferred responsibilities or costs to councils over the last decade?

Mike GOOEY: Sorry, Mr Mulholland. Can you just repeat the question?

Evan MULHOLLAND: No worries. I am just after which specific areas federal and state governments have either transferred responsibilities or costs over the last decade.

Mike GOOEY: That is not something from our portfolio view we would have a sense of, in all honesty.

Colin MORRISON: No.

Evan MULHOLLAND: Okay. Are you aware what percentage of council budgets are now dedicated to services and responsibilities that were previously managed by federal and state governments?

Mike GOOEY: No. Again, we would not –

Colin MORRISON: It is not something we can –

Mike GOOEY: Given the way in which budgets are constructed within councils, they do not do that sort of split, so it is not something we have line of sight to.

Evan MULHOLLAND: Would you be able to provide me – I am just interested in a particular issue – any insights on maternal and child health funding at a local government level? I am just wondering whether you believe that local government is the most appropriate entity to deliver these services.

Mike GOOEY: Again, that is probably a question for another portfolio rather than the local government portfolio, Mr Mulholland.

Evan MULHOLLAND: Do you conduct financial budget analyses for councils to assess their long-term sustainability, and how closely do you monitor this?

Mike GOOEY: As a part of the legislation, there is a 10-year plan which is required to be done by all councils and then we actually monitor budgets annually, so we do have a sense of trajectory, if you like, Mr Mulholland.

Evan MULHOLLAND: Are there any specific councils or council regions that are you are more concerned about?

Mike GOOEY: Probably as per my answer to Dr Mansfield, they are different classes of council, if you like, so rural, regional, interface and metros all have different things that we look for. But certainly challenges are faced by all councils in terms of having to make decisions around the mix of services and infrastructure that they wish to meet their community needs. We do not have a list, Mr Mulholland, is probably what I am trying to say.

Evan MULHOLLAND: No. Fair enough.

The CHAIR: Thanks, Mr Mulholland. Members, we have 10 minutes left. So I am more than happy to allow more questions, but they will have to be very, very quick – starting with Mrs McArthur.

Bev McARTHUR: You are in charge of collecting and reporting information about council performance. How much does it cost councils to comply with all your accounting and reporting and compliance material?

Mike GOOEY: I do not know, Mrs McArthur. But in terms of the actual frameworks, councils put people in to work on committees with us, and they help form them as part of their normal business, if you like, so it is part of the business costs of running a council.

Bev McARTHUR: The state government imposed these reporting mechanisms onto council. You are in charge of providing the money or advice to the government and so on. You must have some idea of what cost burden this is imposing on local government.

Mike GOOEY: No, Mrs McArthur.

Bev McARTHUR: No, you do not. Right. Okay.

The CHAIR: Thank you, Mrs McArthur. Mrs Broad.

Gaëlle BROAD: Thank you. I am interested particularly in roads funding, because you did include that in your presentation. Now, if I have got this right, it said local roads grants of \$197.213 million were allocated for 2023–24?

Colin MORRISON: That is right.

Gaëlle BROAD: Okay. I guess local councils manage about 85 per cent of roads in Victoria, so do you think they are getting a fair share of funding from the state and federal governments to maintain roads?

Colin MORRISON: The local roads grants only comprise a portion of what councils receive from both state and Commonwealth funding. There is also an element of the general-purpose grants that relates to local roads as well. About 15 per cent or so of the general-purpose grants relates to local roads, and then in addition the Commonwealth also provides significant other assistance through programs they administer directly, including Roads to Recovery and the more recent local roads and community infrastructure program, which

was funded during the pandemic. That is Commonwealth funding. In addition to that, there is state assistance that is provided directly but outside of our portfolio.

Gaelle BROAD: Are you able to put a dollar figure on that?

Colin MORRISON: On the totality of it? No, we cannot.

Gaelle BROAD: Okay.

Colin MORRISON: Again partly because some of the general purpose funding is untied, and some or all or none of it could be applied by individual councils to their local roads.

The CHAIR: Ms Terpstra.

Sonja TERPSTRA: Thanks, Chair. Just to follow up on Dr Mansfield's line of questioning around the financial health of the sector – and your presentation went to this as well – VAGO reporting on this was saying that effectively the health of the sector looks reasonably good, but it contrasts of course with the calls from the sector about their financial health. Why do you think this is? Why do you think that councils are calling for greater financial assistance? I mean, we have heard this morning all the different avenues of funding support that are available. Given VAGO's reporting in this area, why do you think there are the calls for greater assistance?

Mike GOOEY: It comes down to an observation, I think, of community expectations for the range of services and infrastructure that people want to see. That is the great balancing job for elected officials to juggle. But I think that that is probably the key driver, Ms Terpstra.

Sonja TERPSTRA: Great, thank you.

The CHAIR: Thanks, Ms Terpstra. Mr Mulholland, did you have another question?

Evan MULHOLLAND: I will give it to Gaelle.

The CHAIR: Great, thank you. A final question from Mrs Broad.

Gaelle BROAD: Thank you. I guess you have talked a little bit about the tied grant funding, but can you talk about the merits of the untied grant funding? I guess I have heard from councillors that a lot of time and effort goes into applying for things. Do you know how effective the untied grants are?

Colin MORRISON: Certainly the untied funding, which is predominantly the Commonwealth funding, is very valued by councils because it can be used across the range of services. Whilst we do have some data requirements that sit behind that, it is quite low impact for councils in terms of having to provide that information. With the tied funding that we are familiar with through Local Government Victoria, I will just highlight a couple of the programs in the libraries area. There is a public libraries funding program, which is funding provided to each council to support the delivery of their library services. Whilst that is tied to be used for the delivery of library services, we do not mandate that it must be used for staffing or it must be used for utility bills or to purchase materials. So it is untied, if you like, but within the confines of that service. Funding that councils need to apply for, such as through the Living Libraries infrastructure program that sits within Local Government Victoria, yes, it is an application process – it is a competitive grants process – but we act to minimise the information that we require from councils. I should also point out that we have different co-contribution rates applying to different groups of councils. In particular it is such that small rural councils – that is, councils with a population of I think it is less than 15,000 – do not have to provide a local co-contribution. If the project is successful and it is funded, the state will provide all of the funding up to the maximum grant. So there are a range of approaches taken there.

The CHAIR: Thanks, Ms Broad. That is all we have time for. Thank you very much for appearing before us today and taking the time to give us such a detailed presentation as well. It was very, very handy. That concludes the public hearing.

Witnesses withdrew.