

17 June 2024

Committee Secretary
Legislative Council Economy and Infrastructure Committee,
Inquiry into Local Government funding and services
Parliament House
Spring St
East Melbourne VIC 3002

Dear Secretary

Re: Inquiry into local government funding and services

Warrnambool City Council welcomes the opportunity to provide a submission to the Economy and Infrastructure Committee's inquiry into local government funding and services. We believe a strong and sustainable local government sector is vital for the prosperity and liveability of communities across Victoria.

Our submission responds to the key areas of concern as referenced in the inquiry's terms and conditions, and is attached to this letter.

Warrnambool City Council would be willing to talk to its submission at a future hearing.



Cr Ben Blain



Mr Andrew Mason

Mayor, Warrnambool City Council.

CEO, Warrnambool City Council



Key Areas of Concern

Our submission focuses on the following key areas outlined in the Committee's Terms of Reference:

The effects of cost shifting from the state and federal governments to local councils:

“Cost shifting” is the term used to describe a financial burden moved from one organisation to another. Cost shifting has materialised in two ways in the Victorian Local Government Landscape:

1. Responsibility shifting.

This is where the responsibility to deliver a service is transferred to local government authorities from another level of government. This has happened previously with services such as School Crossing Supervision, Maternal and Child Health Services, and maintenance of crown land. Often these services are transferred to local government with a funding allocation, but over time, funding allocations are either frozen, reduced, or entirely removed, so that councils are left with an increasing burden to deliver a service that was accepted based on a jointly funded ideal. An example of this is School Crossing Supervision, which was transferred to local government authorities in 1975 with a 50/50 funding split. With the increase of costs exceeding state government funding increases over a number of decades, councils now fund 80% of the costs.

It would be beneficial to see legislation or guidance that recognises responsibilities for each service that has shared or shifting responsibilities, and formalise funding agreements that keep up with the increasing cost of providing these services. This would provide certainty for councils and negate the need to sacrifice one service provision over another due to inconsistent or ambiguous funding. Council recommends that a division of the State's residual powers that are allocated to local government be enshrined in the Victorian constitution, in a style similar to the Commonwealth of Australia Constitution's heads of power section.

2. Increases to Government charges or removal of access to income.

In the last two years, despite a better injury rate, Council's Workcover premium has increased from \$600,000 to over \$1,000,000. This is entirely unsustainable. A recent “desktop” exercise conducted by the state electoral commission to establish ward boundaries for the upcoming local government election cost council in excess of \$60,000, and we have been advised that the cost of conducting the election will increase from \$210,000 to \$320,000. At the same time, the state has introduced new taxes all of which are seriously undermining the financial sustainability of Local Government Authorities. For context, in the last two years, the rate cap has risen by 1.75% and 3.5% respectively.

Significant increases in the landfill levy and fire services levy, announced in the May 2024 Victorian budget, are well in excess of inflation (20-30%) and will be passed on to property owners through the rates system. The question must be asked, how are these increases justified in an environment where households are under such financial pressure? The increase in the landfill levy has been justified to “bring into line with New South Wales”. Increasing fees and charges could be seen as hypocritical by a state government that caps council rates at 2.75% to meet community cost of living expectations. It seems that the Victorian state government is not held to the same transparency principles, nor financial integrity principles, as Councils.

The increase in the landfill levy, which must be passed on to property owners through council's waste charges, may also be seen as hypocritical in the face of the minister's recently released waste and service charge guidelines, which seek to prohibit councils charging ratepayers a waste charge for waste services that are not related directly to kerbside residential bin collection. This will mean that street cleaning, public litter bins, beach cleaning, waste education, and graffiti removal costs will all need to be funded from the restricted rates pool, or discontinued. Some councils have already declared that they will no longer carry out waste removal or cleaning activities on crown land or state owned roads. The introduction of these guidelines, without consultation with local government authorities, and used politically to cast a negative light over councils, has also degraded the relationship between the state department (Local Government Victoria) and the industry.

The recent introduction of the Windfall Gains Tax will add further burden to councils. This new tax, applicable when land is rezoned, will impact the ability of local government to assist in addressing housing shortages for key worker and social housing projects by adding another layer of costs. We recommend that a waiver program be introduced for housing projects that are based on providing key worker or affordable housing.

The Local Government industry has become more sceptical of State Government cost shifting as large increases are passed on across a number of services that are significantly above CPI increases. Often without justification or suitable advance notice, such as the recent announcement of a 30% increase in the EPA landfill levy, announced in May when most councils had already updated their budgets and created strategic positions in regards to the ministerial guidance into waste charges.

A prime example of this is the previously noted "structure review" carried out by the Victorian Electoral Commission on behalf of Council. This review was a desktop exercise and cost significantly more than expected, coming in at \$60,000. Warrnambool has been hit by a number of similar cost increases in recent years that are having significant impact on Council's financial autonomy.

Cost and responsibility shifting to local government has become systemic. Examples of services where cost shifting to Local Government has occurred include (but are not limited to):

| | | | |
|-----------------------------------|---------------------------|---|---|
| Libraries | Maternal and Child Health | Emergency Management, Response and Relief | Fire Services Levy Administration |
| Social Housing | Child Care | Fire Plug Maintenance | Pensioner concessions |
| Planning Compliance on State Land | Immunisation | CCTV and public safety | Family Day Care |
| Environmental Health | School Crossings | Stormwater and drainage | Pool fence compliance |
| Statutory Planning | Crown Land management | Electrical Line Clearance | Climate change response and mitigations |

Ability of local governments to meet core service delivery objectives:

Core services provided by local government include:

- Planning and building approvals.
- Roads, parking, footpaths and transport infrastructure.
- Waste collection and recycling.
- Stormwater drains.
- Public health amenities.
- Animal management.
- Emergency management.
- Sport and recreation facilities.
- Open space such as parks, gardens and playgrounds.
- Libraries.
- Arts and culture, and
- Community Events

Local Councils provide stewardship over large portfolios of community assets, most being used to provide or support the delivery of core services.

Whilst funding programs exist for infrastructure, more often than not, the funding supports the provision of new assets, rather than the maintenance of existing assets. This can lead to an unsustainable focus on constructing new assets at the expense of existing assets, leading to increasing asset renewal funding gaps and poorer quality of community infrastructure in the long term.

As far back as 2006, in the report "National Sustainability Study of Local Government", by PriceWaterhouseCoopers (PWC), it was found that there was a national local government infrastructure backlog ranging between \$12.0 billion and \$15.3 billion, with an annual shortfall in expenditure on existing local infrastructure renewal of between \$0.9 billion to \$1.2 billion. This implied that between \$1.8 billion and \$2.3 billion per annum would be required to address the (then) deficit in maintenance spending on existing infrastructure and eliminate the current local infrastructure backlog. This represented the equivalent of between \$2.6 million and \$3.3 million per council per annum, which was far beyond the financial capacity of the vast majority of Australian local councils in 2006.

In the current environment of escalating costs, councils are experiencing challenges to keep up with the rising cost of maintaining existing assets, let alone affording significant increases in construction costs for new assets. This is further eroding the ability of local government authorities to fund infrastructure renewal to maintain their existing assets.

There are further specific challenges to local government authorities:

- Increasing costs and the effects of more frequent severe weather events are resulting in higher road maintenance costs. Local road funding has not kept pace with the increasing costs of road maintenance.
- Regional cities face the dilemma of servicing a much wider population than ratepayers within its own boundaries. Warrnambool, as the largest regional city in the South West Victoria area, provides a number of services to the broader regional

community, particularly to support health and wellbeing of aged and disadvantaged local populations. As distinct from other regional cities, Warrnambool has a much smaller ratepayer base, and hence a bigger financial challenge to sustain these activities.

- Whilst being an attractive destination, Warrnambool lacks the housing stock to retain a skilled workforce. Rental vacancies remain amongst the lowest in the state, at 0.4% (in the lowest 5 scores of all 79 Victorian LGA's).

Local government's revenue structure, as well as whether these structures are sustainable:

Local Governments are constrained by the impact of rate-capping, whereby limits are imposed on revenue generation by the State Government. In Victoria's case, the rate cap has been pegged to Victoria's Department of Treasury and Finance CPI forecast since the introduction of the scheme. The consequences of this are:

- a) Treasury forecasts are often very conservative, with most long-range forecasts showing a 2.5% growth in CPI despite vastly different economic circumstances,
- b) The cost base of local government does not reflect the increases represented by a consumer price index, and in fact often run at double (or more in recent years) the rate of CPI. The cost base in Local Government is highly influenced by construction costs and wage price rises, both of which are excluded from CPI.
- c) Some construction costs ran at over 10% increases during the pandemic.
- d) There is no mechanism to catch-up when cost increases far outweigh projected inflation.
- e) The process to apply for a rate cap variation is overly burdensome for individual councils, and heavily politicised, leading to a reluctance for Councils to apply. In fact, no Victorian council has applied for a rate cap variation in the past two years, despite a national pandemic.
- f) Despite independent recommendations by the Victorian Essential Services Commission of higher than CPI rate caps over a number of years, these recommendations have been ignored. This is in contrast to the NSW IPART who have highlighted the impact of rate capping on NSW councils and implemented catch-up measures to correct the revenue base.
- g) Government agencies reporting on declining cash reserves held by Councils and indicating concern about long-term financial sustainability of Councils
- h) The rate cap is set on a "one size fits all" basis, and there is no differentiation between rural and metropolitan councils. Rural Councils commonly face greater challenges in funding its infrastructure and services than their metropolitan counterparts, however, this is not recognised in the rate cap. The NSW rate peg does recognise this anomaly, and provides different rate caps for different councils based on independent advice.

- i) The Victorian rate cap has been heavily politicised, and is set by the Minister for Local Government. The rate cap should be set by a truly independent umpire based on factual evidence of the unique requirements of different councils, such as IPART in setting the NSW rate peg, or the RBA setting official interest rates

Further opportunities exist to improve rating legislation in regards to rating differentials. The act allows councils to charge different amounts to different classes of properties, for instance, a commercial property may be charged a higher rate than a residential household. This allows a more equal distribution of rates across ratepayers. However, the recent update to the act has not made significant changes to this legislation, and opportunity exists to revisit and modernise rating differentials.

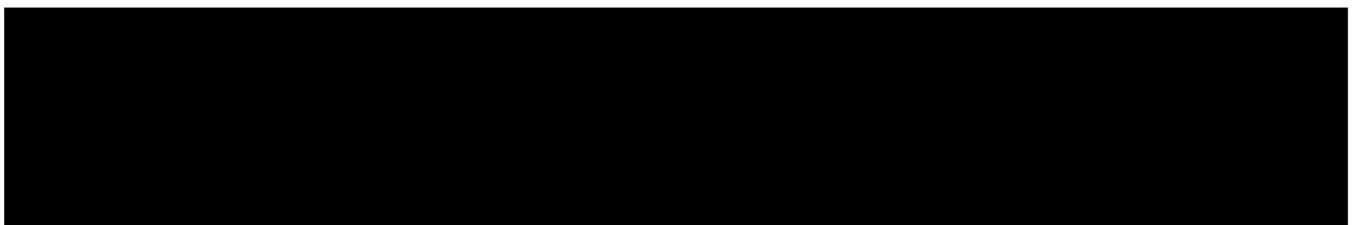
Whilst financial responsibility remains a core pillar of Victoria's *Local Government Act 2020*, we feel that regulation coming from state government is inconsistent with this tenet, undermines Council's autonomy, and places undue pressure Council's ability to meet the principles in the act.

For example, recent guidelines into rates collection in Victoria aim to replicate conditions in the water and energy sector, seemingly not recognising the status of property rates as a tax but rather a service charge, introducing extremely passive rates collection practices that will introduce a high level of uncertainty to Councils in regards to collectability of rates. This will place additional financial burden on Councils as costs increase to manage delinquent ratepayers.

These guidelines were introduced based on a review of some undesirable practices at a small number of metropolitan councils, and will unfortunately impact the ongoing financial viability of many regional and rural councils. Whilst mired in "best-practice" terminology, these guidelines effectively place Victorian Local Government Authorities into a restrained environment that will erode long-term financial sustainability.

The sector is also under increased pressure to increase its level of debt, with commentary by the State Treasury about "lazy balance sheets" concerning those in the industry, especially considering the large levels of state and commonwealth government debt. Councils manage their debt portfolio in a sustainable and responsible way to ensure that borrowings can be accessed to fund inter-generational community assets. This ensures that debt is managed responsibly and can be accessed when required to fund council's contributions to large community infrastructure projects.

Also, whilst Councils are encouraged to explore alternative sources of income, a recent decision by the state has removed council's ability to collect a levy on short stay accommodation, which will instead be collected and used now by the state. Although collected mainly in regional Victoria, the funds collected by the state in this specific example have been prioritised for investment in metropolitan Melbourne.



Whether there are alternative models of funding to consider:

There is a significant level of misunderstanding of how councils are funded outside of the industry. Many believe that as property prices increase, Council rates increase. This is not the case. Property prices are merely used by councils to split up the rates obligation amongst ratepayers. Therefore, those with higher valued properties pay a higher proportion of rates.

A [recent enquiry](#) into Local Government finances in New South Wales noted:

"land values have gone up 140 per cent over the last 10 years, and rates have gone up 25 per cent. I think a lot of people get quite confused by this fact. They think that if land's going up, council would get more rates. Councils only get more rates by the rate peg, but we provide a lot of community services where we have to buy land or we own land, so the actual cost for us to acquire land for open space becomes quite restrictive"

Council's ability to purchase land to construct new community facilities is also impacted by increasing land costs and restricted income. This is in contrast to land taxes, collected by the state government, which do increase proportionally with property values.

There is no "magic bullet" to fix the funding challenges in Local Government, however, improvements could be made to the current system to help shore up the financial sustainability of councils. These include:

- Recognition of rates as property taxes, as distinct from service charges.
- Independent setting of the rate cap,,
- The introduction of tiered rate cap to apply to different council types,
- Catch-up provisions where the rate cap does not keep pace with inflation.
- Streamlining of the rate cap exemption process.
- Greater state lobbying for a higher share of commonwealth tax revenue to the local government sector.
- Local Government exemptions for Windfall Gains Tax, where land is sold rezoned to address key worker or social housing purposes.
- A formal review of current rating differential laws and how these could be used to improve rates distribution amongst different classes of ratepayers, including a review of current property categories that are specifically included and excluded from rating differential classifications.

Any other related matters:

Attraction and retention of a skilled workforce continues to be a challenge in the local government sector, particularly in rural and regional areas. We propose exploring initiatives such as regional pay supplements, improved training programs, and career development pathways to enhance the attractiveness of local government careers.

People working in the regions also need access to public resources related to health, education, and child care. A strong region relies on:

- Good transport hubs – regional links for air and rail, and reliable regional roads. The Commonwealth and State investment in major regional roads must increase to meet growing demands for maintenance.

- Further Investment in digital connectivity to address mobile blackspots and NBN access.
- Export and supply chain initiatives for rural and regional business to support economic activity) – including small to medium enterprises.
- Timely planning outcomes regarding infrastructure delivery around growth spaces – including support for the infrastructure required to support regional hubs such as health services and education facilities.
- The growing complexity of infrastructure needs (e.g., climate change adaptation, digital connectivity) places a significant burden on council resources. Councils are finding it harder to meet the co-contribution requirements of grant funding programs. These must be revisited.
- Councils in coastal areas, such as Warrnambool face significant future challenges with the impacts of changing climates, including erosion and rising sea levels, and will require significant investment from other levels of government to respond appropriately to these challenges, especially in the areas of protecting community assets and planning to mitigate future impacts. We recommend a state-wide strategy to support regional councils in meeting these evolving infrastructure challenges, potentially through dedicated funding streams or technical assistance programs.

Warrnambool City Council recently joined into a joint venture with two neighbouring councils to procure and implement a common Enterprise Software System. Whilst this initiative was funded by State Government, it was something that could never have been funded individually to this degree. We see the need for similar funding programs to encourage further collaboration between Local Government Authorities.

Once completed, this program will serve as an example of how investment in collaboration between councils can boost sustainability and reduce dependence of external funding over the longer term.

Warrnambool City Council administers the Great South Coast Designated Area Migration Agreement (DAMA). Council supports the continuation and expansion of these migration programs to support regional areas.

The program helps to address worker shortages in rural areas, where it has been increasingly difficult to attract appropriately qualified and suitable candidates to the region's employers. The DAMA agreement is highly valued by Council and hiring organisations in the area, and has recently increased the maximum number of workers allowed under the program from 100 to 300. The list of occupations has also recently risen from 75 to 113 eligible roles.

The region has very low unemployment levels compared to the national average, so this program is pivotal to support the continued sustainability of the district.

Whilst the program is highly valued and continues to support local employers, challenges exist in housing these workers. The region is experiencing significant housing availability issues, with rental availability being at less than 1% - one of the lowest rates in the country. At the same time, Warrnambool's population is growing at over 1% per year, putting additional pressure on existing services. On top of this, recent announcements regarding



additional investment in offshore wind farms and food processing are expected to bring hundreds, if not thousands, of new workers to the region.

Together with low unemployment and low housing availability, regional councils have additional difficulties attracting and retaining qualified staff due to lower wages and limited career progression opportunities compared to metropolitan counterparts.

Due to highly specialised roles and low representation of these roles in regional areas, local councils are often seen as "cannibalising" each other, where employees in key roles switch between councils for higher pay and more progression opportunities. This is unsustainable in the long run as it does not create permanent solutions to the resourcing problem.

We propose exploring initiatives such as regional pay supplements, improved training programs, and career development pathways to enhance the attractiveness of local government careers.

People working in the regionals also need access to public resources related to health, education, and child care. A strong region relies on good transport options, digital connectivity, and a strong underlying local economy.

Recommendations

Warrnambool City Council urges the Committee to consider the following recommendations:

Rates:

- Clearly recognise rates as property taxes, as distinct from service charges. This includes a public information campaign, in conjunction with the local government industry, about the purpose and importance of rates as a revenue source for delivering community services and infrastructure. It also includes the recognition of rates as distinct from service charges in the ministerial guidelines, including the alignment of hardship recommendations that are consistent with the Australian Tax Office and State Revenue Office, rather than the commercial sector.
- Independent setting of the rate cap by an independent umpire.. The sector would also benefit from the earlier setting of the rate cap, before the end of November, to enable more time to consider budgeting and rate cap exemption requests.
- The introduction of tiered rate cap to apply to different council types. This would recognise the unique challenges that rural and regional councils face and ensure that the regions are not disadvantaged compared to metropolitan councils.
- Allowance for catch-up provisions where the rate cap does not keep pace with inflation. This would ensure that the sector is not required to compromise service delivery when periods of high cost escalations occur and help protect the financial sustainability of the sector.
- Streamlining of the rate cap exemption process. The current process is exhaustive and an impediment to councils in need of higher funding opportunities.

Other Recommendations:

- That the state lobby for a higher share of commonwealth tax revenue to the local government sector to be provided through the Financial Assistance Grants program.

- Local Government exemptions for Windfall Gains Tax, where land is sold or rezoned to address key worker or social housing purposes.
- A formal review of current rating differential laws is undertaken, with a view to understand how these could be used to improve rates distribution amongst different classes of ratepayers, including a review of current property categories that are specifically included and excluded from rating differential classifications.
- Develop a strategy to support regional councils in meeting evolving infrastructure challenges, including the improving important transport links such as airports and ports, and responding to the additional cost and service requirements of roads in a changing climate.
- Implement initiatives to improve the attraction and retention of skilled personnel in the local government sector, including training pathways for community service workers (such as aged and child care), further investment into key worker accommodation and designated area migration agreements.
- Foster stronger collaboration between the Victorian Government and local councils to address shared challenges. A significant decline in engagement with the sector has been noted in recent years, with the Local Government department providing less direct engagement and more punitive language towards the sector. This detracts from the good work of councils both in the eyes of the general public and in political arenas. We note the absence of staff with specific local government experience in the department and recommend this is rectified. Further to this, we recommend that the state government enter into an authentic consultation agreement with the industry.

Conclusion

A well-funded, well-resourced, and well-staffed local government sector is essential for the continued development and prosperity of regional Victoria. We believe the recommendations outlined in this submission will contribute to achieving this goal. We appreciate the opportunity to provide our input and look forward to the Committee's inquiry.

