

3 July 2024

**Committee Secretary  
The State Legislative Council  
Economy and Infrastructure Committee,  
PO Box 6021  
Parliament House, Spring Street  
East Melbourne VIC 3002**

Sent via email: [eic.council@parliament.vic.gov.au](mailto:eic.council@parliament.vic.gov.au)

Dear Committee Chair.

**Inquiry into Local Government funding and services**

Thank you for the opportunity to make a submission on the above matter.

Please find attached Corangamite Shire Council's submission addressing the Inquiry's terms of reference. The submission has been prepared by council officers and formally considered by Council.

Local government has never been under more financial stress than what is currently being experienced. The ability to fund and maintain services and infrastructure is becoming increasingly difficult and councils are responding accordingly.

We welcome the opportunity to make a submission to this Inquiry as the long-term sustainability and viability of local government is essential in supporting vibrant and prosperous communities.

Should you require further information regarding the submission, please contact

[REDACTED]

Yours faithfully

[REDACTED]

David Rae

**Chief Executive Officer**

[REDACTED]

Corangamite Shire Submission to:

## **Inquiry into local government funding and services**

### **Introduction:**

Corangamite Shire lies in Southwest Victoria, with a population of over 16000 people and almost 9,800 rateable properties. It is on the lands of the Eastern Maar and Wadawurrung Traditional Custodians. Major economic drivers for the shire include agriculture and tourism, with Corangamite Shire part of the largest dairy producing region in Australia.

Corangamite Shire Council offers a diverse range of projects and services to its community. Like all councils, the need to maintain sustainable business practices competes with providing high quality projects, services and programs. This is particularly significant as communities continue to recover from the COVID-19 pandemic and more recently, housing and cost of living pressures. Corangamite Shire Council has had to analyse and find efficiencies for projects and services and in some cases scale back or cease providing services that community members once relied upon.

### **The effects of cost shifting from the Commonwealth and State governments to local councils in an examination of vertical and horizontal fiscal imbalances.**

Cost shifting occurs when Commonwealth and state governments transfer programs or service responsibilities to local governments, without providing sufficient funding or resources. Whilst some funding may be provided initially, councils have seen funding contributions become smaller, whilst costs to provide programs and services have increased. Local councils then bear the cost burden of these increases. Simple examples of this process include the funding of school crossing supervisors, changes to responsibility and costs to maternal and child health services and some changes to residential waste services. Whilst funding was initially agreed to and provided to local government from the state government, over time, state funding has decreased, whilst costs to provide these services, coupled with demand have increased, placing the financial burden on local councils. A more recent example is the 2024-2028 Municipal Emergency Management Program which has not received an increase in base funding. As a minimum government funding must increase in accordance with the annual rate cap.

Corangamite Shire Council aims to provide sustainable services to its community. Vertical fiscal imbalances in no way allows Council to provide sustainable services. The inability for Commonwealth and state governments to contribute in a fair way financially, can no longer be worn by councils alone.

The effects of cost and responsibility shifting impact regional and rural councils more significantly than metropolitan councils due limited revenue opportunities, larger geographical areas, dispersed population and settlement patterns.

Local councils have seen significant rises in fees and charges that councils are required to pay, pass on to ratepayers or collect on behalf of the state government.

Some of these increases include but are not limited to; waste and landfill charges, local government election costs, including electoral structure reviews and costs to hold the upcoming local government elections. These cost increases are well in excess of the current CPI, yet any increase to the rate cap or other forms of revenue are below the same level. This causes a deficit with respect to services and programs offered by councils.

Amendments to the land tax regime and the recently introduced windfall gains tax are taxes that benefit the state government, not local government. These taxes, especially state government property-based taxes, will impact the ability for councils to attract investment for much needed additional housing, given the significant impact they will have on development costs that is ultimately reflected in land value increases. This may prevent investment in housing developments, which will impact regional and rural councils given the housing shortages in experienced in these areas. It is also likely council plans to proactively rezone land to promote development, housing, population and worker increases will be adversely impacted as well.

It has become clear that the Commonwealth and state governments are reducing their financial commitment to providing support to local government and are expecting councils to make up any financial shortfalls. This environment is unsustainable for local councils and may inevitably result in reductions to programs and services.

### **Whether local councils are adequately delivering on their core service delivery objectives.**

Corangamite Shire prides itself on providing high quality, sustainable services to the community. The ability to provide such services is becoming increasingly difficult in the face of limited ability to raise revenue, increased costs and workforce shortages.

Local Councils are at times significantly impacted by legislation and policy change of Commonwealth and state governments. Changes that are intended to improve industry sectors, work practices and outcomes for communities often impact local governments' ability to deliver sustainable high-quality services.

One such example was reform to the aged care sector. These changes, whilst important for service recipients meant Corangamite Shire could not maintain sustainable service delivery to recipients. As a result, Corangamite Shire wound up in-home care services to residents, instead providing sector navigation services to residents in the form of assistance with 'My Aged Care' applications and engagement with private service providers. Changes in this space has resulted in reduced service delivery and workforce reductions, which negatively impact communities.

Another example of changes to legislation included the introduction of glass only recycling to premises across the shire. This state led change to waste and recycling laws again forced council to assess and change processes within its environment and waste management department, rolling out new bins and processes to residents

at significant cost and was met with mixed reviews from residents. Whilst some funding was provided from outside of council in the form of grants, significant costs to council were incurred in upgrading transfer stations to ensure compliance with increased capacity, new processes, regulations and media and communications.

Councils provide services and programs to communities in a not-for-profit scope. Any mandated change to structures, legislation or policy needs to be considered by Council in terms of sustainability of service, cost and workforce.

In future, local councils must be effectively consulted and engaged prior to structure or system changes by Commonwealth or state governments that would directly impact councils' ability to provide critical community services. It is also critical that regional or rural councils be given added consideration as opposed to metropolitan councils as regional and rural councils face significant issues that metropolitan councils do not. For example, sparseness of populations and infrastructure result in the inability to consider combined council services across multiple local government areas.

In addition, the childcare crisis that is prevalent across the nation is forcing some councils, including Corangamite Shire, to consider its long-term involvement in the sector as a provider. Demand for childcare services is high along with infrastructure costs, workforce is scarce and market failure exists in many communities. Historically, councils have met the cost of market failure, especially in rural communities. For these services to be viable, additional government funding is required. Similarly, the Victorian state-run kindergarten program introduced reform that has become costly and onerous forcing some councils, including Corangamite, to reflect on their role as a service provider. Infrastructure costs are high, workforce need is high, yet funding is insufficient to meet these challenges.

According to research undertaken by Torrens University, South Australia, 69% of local governments across Australia reported a skills shortage and skills gap. This was a more significant issue for regional and rural councils as many regional and rural councils compete with metropolitan councils that can offer higher pay due to increased revenue from rateable properties.

The challenges of regional and rural councils also include matching salaries and amenities that are competitive, offering career paths, partnering with education and training providers to develop career and skill development programs, and providing flexible employment options for all including those with family responsibilities or for older workers.

Corangamite Shire Council experiences skills shortages and difficulty in the attraction and retention of staff and does compete with other councils and the private sector. To assist, council offers some flexible work options including the ability for some employees to work some shifts remotely, the ability to purchase additional leave and the promotion of training and development opportunities. Despite these initiatives, staff turnover, recruitment and retention remain significant issues.

Given Corangamite Shire Council's limited ability to generate revenue compared to metropolitan councils, Corangamite Shire cannot provide the same level of staff

renumeration. Issues around current housing shortages also impact Council's ability to attract staff, with limited options for people who may consider a move to regional Victoria unable to find suitable accommodation with housing demand greater than availability. Many staff at Corangamite Shire reside in larger regional areas and commute, which impacts their work/life balance. This can lead to employee dissatisfaction and higher employee turnover. This is also an issue that affects many industries that provide service to the community.

The chair of Rural Councils Victoria Mary-Ann Brown recently told the Victorian Legislative Council – Legal & Social Issues Committee that a failure to provide extra homes could mean an annual gross regional product loss ranging between \$200 million and one billion dollars. Government at all levels need to work collegially to address issues around housing and accommodation, across many industries including local councils.

A lack of suitable workforce will result in a reduction of the number and quality of services provided by councils and other government departments. Social issues such as housing stock, childcare and cost of living pressures contribute to workforce issues, which then flow on to service provision by councils.

### **The overall revenue structure of local government.**

Victorian councils, especially rural councils, generally have very few options available to raise revenue other than from rates, which are capped by the Victorian State Government. It can of course decrease spending and Corangamite Shire is constantly looking at ways of doing things more efficiently and increasing productivity.

The levers available to councils are essentially:

- borrow, however funds must be paid back at some stage and should not be used for recurrent operational requirements;
- raise user fees and charges, however many of these have statutory and regulatory limits and/or the community does not have the capacity to pay;
- decrease service levels and standards, however this has an impact of the quality of life of residents and the livability of our towns and rural areas;
- cut services all together;
- hand services back to other agencies and tiers of government, which is easy to say, difficult to do in practice;
- seek a variation to the rate cap which must be approved by the Essential Services Commission, and difficult to achieve;
- secure more tied government grants, however these often come with co-contribution requirements.

The 2018 Victorian Government inquiry into the sustainability and operational challenges of Victoria's rural and regional Councils reported that several key differences between metropolitan and regional councils, including rural councils, were evident to the enquiry and that these differences needed to be considered in

understanding the sustainability of regional councils. These differences included regional councils incurred higher costs than metropolitan councils and that regional councils had less ability to raise revenue than metropolitan councils. These two factors are critical in identifying how Commonwealth and state governments funds are disseminated to councils. These factors should also guide any changes to rate capping frameworks.

The Australian Government provides funding under the Financial Assistance Grant program to local government since. The grants are provided under the Local Government (Financial Assistance) Act 1995

The Financial Assistance Grant program consists of two components:

- a general-purpose component which is distributed between the States and territories according to population (ie. on a per capita basis), and
- an identified local road component which is distributed between the States and territories according to fixed historical shares.

Both components of the grant are untied in the hands of local government, allowing councils to spend the grants according to local priorities. Local government grants commissions in each state and the Northern Territory recommend the distribution of the funding under the Financial Assistance Grant program to local governing bodies in accordance with the Act and the national principles for allocating grants.

In the past councils have advocated strongly for a greater share taxation revenue. In 2015, almost ten years ago, the Commonwealth government released its taxation white paper. Contained within this paper was a breakdown of the allocation of every tax dollar. There is a clear disparity in funding when the levels of government are compared. From each tax dollar, just 3 cents go towards funding Local Government, 16 cents go to the State Government and 81 cents to the Commonwealth Government.

Corangamite Shire Council supports initiatives such as the Growing Regions Program which was initiated in May 2024 that provides some support to councils, although the funding provided is based on a competitive grant system which may disadvantage some councils. Similarly, the Commonwealth Local Roads and Community Infrastructure Fund is a great example of a program that can be customised for local needs. It's a program that state governments could replicate.

What is at issue is not whether there is a rate cap, but instead the inadequacy of the current funding models for the core, community-focused, essential work of local government.

Regarding the rate capping regime, taking a simplistic view that CPI is representative of cost increases experienced by local government is fraught. Whilst there has already been much said on this the Committee must take a deeper dive into the merits or otherwise of using CPI as a proxy for council cost increases. It is the experience of this Council, particularly in the last two financial years, cost increases

are exceeding the rate cap and generally this is a consequence of macro-economic forces resulting from the decisions of the Commonwealth or state government.

### **Whether the existing revenue structure is sustainable and appropriate or if alternative models of funding would be more sustainable and appropriate**

There appears to be a lack of understanding from outside of the local government sector about how revenue is raised by councils. Whilst councils receive revenue from rates, councils are responsible for collecting the Victorian State Government Fire Services Property Levy. The levy appears on rate notices as a separate charge. Councils do not derive any benefit and are required to remit amounts collected to the State Revenue Office quarterly. Corangamite Shire Council is also responsible for collecting the landfill levy on behalf of the State Government. Anecdotally, ratepayers form a view that these state charges form part of council revenue, when in fact councils receive significantly less revenue. For the 2024-25 financial year rates and charges will make up about 40% of the Corangamite Shire Council budget, with the remainder of revenue coming in the form of fees, charges and grants.

Metropolitan councils tend to have greater revenue streams compared to rural councils due to several factors:

- **Population Density:** Metropolitan areas have higher population densities, which leads to higher rate revenue and income from fees and charges. Councils with a smaller area can provide services in a more efficient way than councils with a larger, area and a sparser population.
- **Economic Activity:** Metropolitan centres are hubs of economic activity, commerce, and industry. This can generate additional revenue through business rates, permits, and fees. Even something as simple as car parking fees generate significant revenue that regional or rural councils cannot.
- **Infrastructure and Services:** Metropolitan councils often provide a wider range of services that generate revenue through user fees and charges. It is also easier for metropolitan councils to collaborate to provide services to multiple council areas.
- **Property Values:** Property values in cities are generally higher, leading to higher rates revenue. Additionally, metropolitan areas have more commercial and industrial properties, contributing to revenue through rates, fees and charges.
- **Capacity to Pay:** Communities in regional and rural areas have a lower capacity to pay for services, limiting revenue opportunities for these councils.
- **Planning Considerations:** Many regional and rural councils are hubs for agriculture and now energy production, which in some cases are major local economic drivers and must be protected. Planning considerations must be made by regional and rural councils to ensure land is protected for future use. Metropolitan councils do not have these same considerations and can consider developments and subdivisions without these constraints. In fact, metropolitan councils rely on regional and rural councils to protect their land and benefit from land use within regional and rural councils.

The current Victorian rate cap does not consider a councils' ability to generate its own revenue outside of rates revenue. This places regional and rural councils at a significant disadvantage when trying to source revenue to put back into services and infrastructure. The state government must consider rate capping as a way to sustainably support councils that have a decreased opportunity to generate revenue outside of rates. Regional and rural councils should not be compared to metropolitan councils, when it comes to rates revenue, but should be benchmarked in a way that sees a fairer allocation of funds outside of the rate cap and rate capping in a way that recognises the different issues that impact revenue, infrastructure management and service delivery. Similarly, the Minister could use powers under the *Local Government Act 1989* to set rate caps for a class of councils to recognise the inequity between metropolitan and rural councils.

Local councils have seen increased costs associated with providing services and programs, the management of infrastructure and assets and cost increases of major infrastructure projects. This is particularly the case with medium to long term projects and aged assets. In some cases, previously approved budgets have had to be amended or projects and services scaled back. Without sustainable revenue support from higher tiers of governments, increases in managing infrastructure will see costs move away from critical services that benefit local communities.

Councils, in particular regional and rural councils have had to re-consider projects and services and the way in which they are delivered. Adrian Dwyer, CEO of Chief Executive Officer, Infrastructure Partnerships Australia has stated in the Infrastructure Partnerships Australia Budget Monitor 2023-2024 that a total of \$256.6 billion in general Australian Government expenditure has been allocated to infrastructure over the four years to FY2026-27 – just \$1.6 billion more than the FY2022-23 Budget Season, and an \$11.7 billion decline in real terms. This would appear to validate that increased costs of planning and consulting, materials and labour have directly led to changes in the delivery and budgeting of projects.

### **Any other related matters.**

The Commonwealth and state governments should play a greater role in supporting local councils to deliver on products and services that are sustainable. Local councils play a significant role in providing front line services to the community in a way that the Commonwealth and state governments do not.

The Commonwealth and state governments can assist in providing additional and direct funding to councils through taxation revenue, with a focus on supporting regional and rural councils. The Commonwealth Government can support local councils, in particular regional councils with direct investment in airports, seaports, transport and telecommunications infrastructure, which will improve communities and promote growth and investment.

The state government should consider reviewing rate cap policy, including removing a 'one size fits all' approach to rate revenue, by acknowledging and acting upon the differences between council size, location, key demographics and ability to raise revenue outside of the rate cap.



Initiatives such as the Rural Councils Transformation Program (RCTP) are important for addressing shared challenges. Corangamite Shire Council along with Moyne Shire Council and Warrnambool City Council were beneficiaries of \$4.5 million in funding to establish a shared ICT service. This project is progressing well and is a great example of what can be achieved with state government support. The RCTP was an outcome of a review by KPMG Rural and Regional Councils Sustainability Reform Program. The Committee should review this work as there are many recommendations yet to be implemented. Similarly, Rural Councils Victoria commissioned a review into alternative income sources that Committee may also find beneficial.