

**Submission
No 68**

INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

Name: Regional Cities Victoria

Date Received: 28 June 2024



Parliament of Victoria
Economy and Infrastructure Committee
Parliament House, Spring Street
EAST MELBOURNE VIC 3002

via email: localgovernmentfundinginquiry@parliament.vic.gov.au

28 June 2024

Dear Committee Secretary

Local governments across regional Victoria play a unique and expanded role in job creation, economic development and diversification, strategic planning, infrastructure delivery and service delivery, compared to those in metropolitan Melbourne.

Regional cities are the heart of country Victoria – underpinning regional economies and supporting the state’s economic growth, liveability, and access to services for people living in both regional cities and rural towns.

Regional Cities Victoria (RCV) represents the more than 800,000 Victorians that live in the regional centres of Ballarat, Bendigo, Geelong, Horsham, Latrobe, Mildura, Shepparton, Wangaratta, Warrnambool, and Wodonga.

Every single day, an extra 35 people call one of these regional cities home. Local government is at the forefront of responding to this net population growth and maintaining the liveability for which regional Victoria is renowned. However, this is placing increasing strain on the sustainability of regional councils’ operations and revenue streams.

RCV welcomes your inquiry into local government funding and service delivery, the increasing infrastructure and service delivery obligations on this tier of government, vertical and horizontal fiscal imbalances, core service delivery objectives, and revenue structures.

We are pleased to present the enclosed submission. Should you require further information please feel free to contact the Secretariat on (03) 9620 9300, or via email at rcv@cprcomm.com.au.

Yours sincerely,

[REDACTED]

Shane Sali
Chair, Regional Cities Victoria
Mayor, Greater Shepparton City Council



Financial sustainability and funding of local government: restricted capacity to raise revenue in the face of increasing and shifting costs

While all tiers of government must be responsible for raising revenue to fund operations and service delivery, the capacity of regional local governments to do so is constrained by relatively smaller populations, the capacity of community to pay, and legislative impediments.

Commonwealth and state government grants are the second highest source of revenue for Victorian councils after rates and charges. This characterises the vertical fiscal imbalance that is entrenched through Australia's federation framework.

In an environment where councils' expenses are persistently growing well above inflation (9.3 per cent in 2022-23) and general rates and municipal charges are capped by the Victorian Government at an amount based on the forecast Consumer Price Index (CPI); the revenue base of local government is not sustainable.

While councils can apply to the Essential Services Commission (ESC) for a higher cap than that set by the Minister for Local Government, the administrative and political burden this process places upon local governments has proven to be substantial. Consequently, only one RCV member has made such an application to date (Warrnambool City Council in 2019). In this case, the ESC approved the higher cap for two of the three financial years requested. However, council ultimately proceeded with a higher cap in 2019/20 only, due to community backlash wedded to the expectation set by the Government's generic cap.

In March 2024, the Victorian Auditor-General's Office (VAGO) reported another decline in the adjusted underlying result indicator – a measure of a council's ability to generate a surplus from its ordinary course of business (excluding capital receipts) – for Victorian councils, noting that a continuing "longer-term negative trend in this indicator could force councils to reduce the services they offer their communities".

Significantly, VAGO noted that "[the sector's] financial performance would have declined had the Australian Government not advanced 100 per cent of the 2023–24 financial assistance grants in 2022–23."

Local government is responsible for a wide range of regulatory, economic, social, environmental and infrastructure services. This includes enforcing or administering State legislation, acting under delegated powers, and delivering Victorian Government initiatives or projects.

Councils are having to meet an increasing proportion of the costs of public libraries, school crossing supervision, maternal and child health services, building services, early childhood education infrastructure, and environmental protection. This cost shifting further deteriorates councils' financial position.



Recommendation 1:

The Committee notes that the Australian Government's Financial Assistance Grants have not increased in real terms on a per capita basis since 1995 and recommends that the Victorian Government advocate for the restoration of Financial Assistance Grants to at least one per cent of Commonwealth taxation revenue.

Recommendation 2:

The Essential Services Commission be required to calculate, and have regard in advice provided to the Minister for Local Government with respect to setting the rate cap each year, to a local government cost index. Such an index should account for differences between metropolitan and regional councils and serve to prevent further cost shifting onto local government.

Recommendation 3:

The Victorian Government recognise that regional councils have different service delivery obligations, asset maintenance and management costs, and total revenue takes compared to metropolitan councils; and use existing powers under s185D(2)(b) of the *Local Government Act 1989* to set differential rate caps for local governments in regional Victoria in acknowledgment of this cost base differential.

Recommendation 4:

The Victorian Government develop a financial sustainability framework for local government by 2026, in collaboration with the sector, that measures risk-based criteria (with consideration of different risk thresholds across the different council cohorts) including: financial indicators to measure both the current financial position and future sustainability; criteria for each financial indicator to enable an assessment of the risk of the performance of each indicator and an assessment of the total risk to long term financial sustainability; and ranges for the criteria that are appropriate for the different council cohorts.

Infrastructure and service delivery obligations: building back better after natural disasters is a critical investment in long-term sustainability

Essential public assets (e.g. roads and bridges) and community infrastructure such as libraries, community centres, playgrounds, sports and recreation facilities underpin the liveability of regional communities. However, they are often impacted by flood, fire, and severe storms.

As natural disasters become more frequent and intense, every tier of government has a responsibility to ensure that public monies are committed wisely during the recovery phase and with a long-term view, to best support communities and build resilience to future disasters.

Historically, there has been no provision by other tiers of governments for community infrastructure projects to be redesigned to remove or reduce the risk of damage from future natural disasters. For many regional cities, the risk of rebuilding community infrastructure in the same disaster-affected area without extra protective provisions has been deemed too great a risk



and – in the absence of additional funding to improve these facilities – they have not been rebuilt.

Following a disaster, ‘infrastructure betterment’ is the restoration or replacement of damaged assets (at a higher cost) to a more disaster resilient standard than its pre-disaster standard. It is a cost-effective opportunity to reduce the risk posed by future disasters and help reduce recovery costs on governments longer-term. Infrastructure betterment can also bring additional social, economic, and environmental benefits for local communities.

However, infrastructure betterment funding remains available only through Category D (“relief or recovery carried out to alleviate distress or damage in circumstances which are, in the opinion of the Commonwealth, exceptional”) of the Disaster Recovery Funding Arrangements (DRFA). It is not possible, for example, for local governments to access betterment funding through a Community Recovery Fund activated under Category C of the DRFA to support “severely affected” communities.

Recommendation 5:

The Victorian Government work with the Commonwealth to include infrastructure betterment provisions within Category B and Category C of the Disaster Recovery Funding Arrangements, in acknowledgment that building resilience to natural disasters is not an exceptional circumstance nor a burden to be borne by local government alone.

Infrastructure and service delivery obligations: Victoria’s housing shortage is exacerbating local government financial sustainability problems

Infrastructure demands are placing an increasing burden on local government as population growth in regional cities outpaces all previous forecasts. More than 40 houses need to be built in regional Victoria every single day for the next 10 years to meet the Victorian Government’s *Housing Statement* targets.

Whether new houses are in greenfield or brownfield developments, they often necessitate the augmentation of water mains, sewerage plants, and an upgrading of local roads and nearby intersections. Higher populations also place greater demand on council-run facilities and services such as public libraries, community centres, playgrounds, parks and open spaces, maternal and child health services, kindergartens, and early childhood education centres.

Grant funding from the Victorian Government (distinct from debt facilities) is urgently needed to bring forward and/or make viable infrastructure projects that support new housing. This includes essential services like water, power, and sewage; footpaths; local roads; upgraded and/or signalised intersections; and infrastructure projects that provide amenities to support new housing, including shared facilities like community centres and parks.

Developers have a responsibility to help pay for this infrastructure. However, they cannot bear



this cost alone without the risk of regional Victorians being priced out of owning a home. Additionally, 'pioneer developers' are reluctant to install infrastructure at their own cost to the benefit of future developments. At present, a 'first mover disadvantage' exists in identified growth areas across regional Victoria.

Recommendation 6:

The Victorian Government reinstate the lapsed 'Regional Jobs and Infrastructure Fund'/'Regional Growth Fund' (established by s15 of the *Regional Development Victoria Act 2002*) through the 2025/26 Victorian Budget, to contribute \$300 million over four years to the funding of infrastructure projects that stimulate economic and community development in regional cities.

Recommendation 7:

The Victorian Government establish, using proceeds from the Windfall Gains Tax, a Growing Regions Development Fund, to provide enabling or trunk infrastructure in regional cities and ensure key utilities and services such as water and sewage are delivered to unlock new housing stock.

Infrastructure and service delivery obligations: attraction and retention of a skilled local government sector workforce

The local government sector in regional Victoria is experiencing extreme workforce challenges, especially with respect to statutory planning, building, and engineering staff. While all local governments may struggle to recruit and retain strategic planners, statutory planners, building surveyors, and development engineers, regionally-based councils face additional barriers, including:

- struggling to match salaries offered in metropolitan roles or the private sector
- the need to attract staff not only to a role, but to the region, when seeking to source staff from outside the LGA
- challenges associated with working in smaller teams, including burnout
- challenges of working in small communities, where planners are highly visible to developers and other permit applicants outside their professional life.

RCV acknowledges the Victorian Government's efforts to bolster support to councils, including through the resources of the Department of Transport and Planning and the Victorian Planning Authority. However, expanding the capacity of these bodies often results in a negligible net impact, as the state recruits from the same small pool as local government – leading some people to leave local government roles rather than adding genuine capacity to the workforce.

Long-term, we must encourage more highly-skilled Australians to consider a career in local government. However, action and incentivisation must be taken now.

Internal strategies identified by our member councils include: increasing the use of consultants; fostering career changes from within each organisation; formalising remote working



arrangements (including accommodating interstate employees, where necessity of the task demands such flexibility to an applicant); and reimbursement of relocations costs.

The efforts of local government must be complemented and amplified, including by the Commonwealth and state and territory governments.

Recommendation 8:

The Victorian Government work with the Commonwealth to attract planners, development engineers, and other in-demand workers, to migrate to Australia to live and work in regional Victoria within the local government sector. All three tiers of government also work together to promote Victorian pathways into study and employment, and find new ways to support placements and traineeships.