

# TRANSCRIPT

## LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

### Inquiry into Local Government Funding and Services

Frankston – Wednesday 25 September 2024

#### MEMBERS

Georgie Purcell – Chair

David Davis – Deputy Chair

John Berger

Katherine Copsey

Moira Deeming

Bev McArthur

Tom McIntosh

Evan Mulholland

Sonja Terpstra

#### PARTICIPATING MEMBERS

Gaelle Broad

Georgie Crozier

David Ettershank

Michael Galea

Renee Heath

Sarah Mansfield

Rachel Payne

Richard Welch

**WITNESSES**

Phil Cantillon, Chief Executive Officer,

Cam Arullanantham, Director, Infrastructure and Operations,

Shweta Babbar, Director, Customer, Innovation and Arts,

Angela Hughes, Director, Communities,

Kim Jaensch, Director, Corporate and Commercial Services, and

Fiona McQueen, Manager, Community Relations, Frankston City Council.

**The DEPUTY CHAIR:** I declare open the Legislative Council Economy and Infrastructure Committee's hearing for its Inquiry into Local Government Funding and Services.

To you, the witnesses from the City of Frankston, welcome. We will ask you to briefly give evidence and will then follow with some questions.

Anything you say now is protected by parliamentary privilege, but something you say out there is not protected in the same way.

We will get moving. If you can briefly address the terms of reference, then we will ask questions.

**Phil CANTILLON:** Yes. No worries. Thanks very much. My name is Phil Cantillon. I am the CEO of Frankston City Council, and I want to start by thanking the committee for initiating this important conversation for the various councils and shires across the state. Joining me here today is Kim Jaensch – Kim is our Director, Corporate and Commercial Services – and also Fiona McQueen, who is our Manager, Community Relations. And if there are some tricky questions today, I have got some of the directors down the back as well.

As noted in our submission, Frankston City Council, like many other municipalities across the state, is experiencing various forms of financial distress due to issues such as revenue limitations, inflation and construction market pressures. With more than 100 services provided to over 140,000 residents, our role is ever more critical in the community, particularly in harder economic times, as we saw through COVID. We have maintained a stable financial position through the years and particularly through 2020 to 2023. However, financial sustainability features ever more greatly in an environment of revenue limitations, cost shifting, increased inflation and changing community expectations, and while we have implemented a range of measures to mitigate the growing financial strains, it is abundantly clear that rates and charges have not kept pace, with expenditure growth outside of our control.

We understand the justifications for rate capping and the role that it plays in our community, but our concern is that we are now at an impasse, with councils not having adequate base level funding going forward. In our submission we would like to see a review of the rate capping effectiveness and limitations for raising required revenue. We would also like to see a forensic analysis of service shifting from state government to local government. We would like to see minimum equal funding splits set for things such as capital, so if it was a state–local government initiative it might be 50–50, and if it was something that could involve federal, state and local, that might be a third each. We would also like to see appropriate funding allocations to accompany any shifting of responsibilities from state government to local government, which we have described and given some examples of in our submission.

On behalf of Frankston City Council we look forward to working with the committee to develop positive outcomes for local government overall. I would now like to hand over to the Director, Corporate and Commercial Services, Kim Jaensch to provide some examples of the financial pressures we have been exhibiting.

**Kim JAENSCH:** Thank you, Phil, and to the committee. Whilst the financial position at this point in time at Frankston City Council is sound, it is important to note that in all the key metrics the council has seen significant deterioration of its finances over the past five years. In the material that I will provide to the

committee today, just a handout, you will note the ongoing decline in council's underlying financial results. Council has moved from a financial outcome of recording underlying surplus results to now a position where it is annually in deficit and, with this result, continuing to worsen. This council previously had large discretionary reserve funds to assign projects and contingencies, but over the past four years in order to assist our community through the difficult stages of the pandemic and to meet community needs for infrastructure, these reserves have now been consumed and council now has very little contingent funding to deal with any new requirements or events. Council has been unable to top up these discretionary reserves due to unfavourable financial results and this is forecast to continue into the future.

Frankston City Council has in the past been prepared to utilise loan funding to assist in funding infrastructure, unlike many other councils. Council now, however, needs to factor the debt repayments and interest costs into the future financial plan, and very little scope for future borrowings. Some of the loans that have been drawn down have been offered subsidised by the state government. However, with the many increases in the interest rates over the past two years, this has resulted in council taking on board the full interest impact increases and not shared by both levels of government. The economic outlook, along with the ongoing financial sustainability challenges in the sector, mean that continued caution is required. As it does every year, our council will continue to implement changes, cost savings in key areas and strengthen its strategic service planning which guides our future direction. Frankston City Council is always considering the activities and initiatives it will work on more robustly to ensure that they better align with the demands of the prevailing financial environment. This will assist somewhat in providing council to be in a stronger position to ensure we continue to deliver essential services to the community in a sustainable way.

The picture portrayed in our council's long-term financial plan is even more bleak. The economic outlook along with the ongoing financial sustainability challenges in the sector mean that council will no longer be financially sustainable into the future. To say that this council along with many others have reached their tipping point would be an understatement. So how has this council reached this position? Quite simply, our revenue growth has not matched the rising costs of delivering local government services and infrastructure. With now eight years of capped rates, the cost of services has risen significantly higher than the indexation of rates nominated by the Essential Services Commission. Government grant funding for operational services has also not kept up pace with the cost of those services, creating cost shifting by stealth. There are very clear examples of cost shifting from the state government, these examples being election costs just recently for the VEC to council, a 380 per cent increase; kindergarten reforms, over \$13 million in unplanned upgrades and redevelopments –

**Bev McARTHUR:** It is free, though, isn't it?

**Kim JAENSCH:** \$13 million for council – for free, apparently. Libraries formerly a 50–50 split, but state government contributions have not kept pace, leaving council to fund over 80 per cent each year. Recently there has been news that the immunisation registration system costs will now be handed over to council to fund. These are just a few examples. There are obviously many more, which I am sure you have heard from other councils.

Frankston City Council also faces a considerable financial challenge in respect to the minister's proposed best practice guidelines in terms of waste charges. Council will potentially need to transition up to \$11 million in municipal waste related costs from the waste charge into its general rates, requiring an exemption from the rate cap from the ESC. These costs include expenditure for such items as street sweeping, collection of waste from public litter bins and funding the net costs of the council's regional recycling and recovery centre.

Council has no ability to absorb these costs and will need to brief the incoming council on the need for a rate-exemption application. This will not be an easy task, given multiple candidates are campaigning on the basis of either complete rate freezes or very low rate increases below the rate cap. Should council not be able to transition funding for these vital services to the rates, or if the incoming council freezes rates, this council's financial position will be in immediate jeopardy.

In order to deal with these future challenges, the council's financial plan forecasts significant reductions in capital spending, including reductions in its investment in renewing its assets. It accepts that this will lead to an asset renewal backlog and is not sustainable, but it does have little choice. Council will also continue to look at all other options, including reducing or removing non-essential services, which we know is not what the

community desires or needs. Unless there is some significant change of direction at the state level, it is becoming very clear that councils across the state will not be able to fulfil their obligations under the current funding model.

Frankston City Council values the opportunity today to be part of this conversation, and we hope that these messages are heard and taken on board. Thank you very much for your time.

**The DEPUTY CHAIR:** Thank you. We will move to questions. I will try and be as brief as I can because we have got to get through a few. I just noticed in your submission that on the new short-stay tax that has come in you have asked the government to keep those resources in the municipality, in short – I think I am summarising that. You are indicating that the state government is going to collect significant revenue, which will leave the municipality. I think that is right, isn't it? You think it should be hypothecated in some way or that there should be some quarantine around it to make sure it is spent in the municipality in which it is raised.

**Kim JAENSCH:** Yes. Through the Chair, I understand that the intent within the submission is that council would like to see – with those additional taxes, they really belong, or would like to be kept, within the municipality to be able to spend on other services and to help with the development and revitalisation of the municipality.

**The DEPUTY CHAIR:** But for housing – I think also the government is saying some of it is going to be retained for housing, but you are saying it should be for local housing projects, I think, in here:

The levy will generate significant revenue from the Peninsula, up to a third of the estimated \$70 million annual funding stream for Homes Victoria to fund social housing investment.

The Shire has written to the Housing and Planning Ministers, seeking assurance that the revenue raised from the levy on the Peninsula will not be spent elsewhere ...

**Kim JAENSCH:** That is not ours.

**The DEPUTY CHAIR:** Oh, that is not yours. Sorry. I have got the wrong – I am mixing councils there. But you do not have the same –

**Kim JAENSCH:** Thank you. I was trying to scurry – but if you are offering it, we will take it.

**The DEPUTY CHAIR:** No, no. That is fine. I stand corrected. I have brought up the wrong one. Sorry. Just in terms of your statutory planning, I see you spend about \$4.4 million on that role on the planning side of it. Were you consulted when the government announced the new expanded planning zones, particularly the Frankston so-called activity centre? But it is actually – tell me if I am misreading it, but on the maps that I have looked at it is much more than the activity centre, isn't it? It goes out much more broadly south and east, and north up along the coast, deep into Seaford. Am I describing that catchment area, as I think they call it?

**Phil CANTILLON:** No. Through you, Chair, no, we have had a particularly good relationship with the state government in terms of planning our future and the reforms that we have been doing, and we have recently handed over our FMAC structure plan to the minister to finalise. The metropolitan activity centre piece of work was something that was probably more new to us in the conversations. And it does extend beyond the boundaries of –

**The DEPUTY CHAIR:** What you have been talking about?

**Phil CANTILLON:** Yes, what we have been talking about. And we have actually recently put in a notice of motion through the chambers through to the state government in relation to that associated with some of the residential code changes that are planned as part of it in those areas. Small lots becoming two-storey townhouses, larger lots becoming three-storey, and also the res code changes through there –

**The DEPUTY CHAIR:** And some of them going to six storeys, I think.

**Phil CANTILLON:** Yes. My director – I might get her to come up here. Angela Hughes is our director of community services, actually, just in case there are any questions for her there. But the general discussion with the state government has been a positive one for Frankston, because what we realise overall is that for Frankston to move forward – you know, we had been a metropolitan activity centre in the early days. We are

now part of a wider group, and those planning changes have been very important for Frankston – our definition as part of that – but the broader nature of the metropolitan activity centre is something that is more new to us overall.

**The DEPUTY CHAIR:** So this so-called catchment region around it, I think you were not consulted on that, I do not believe, until it was announced.

**Angela HUGHES:** Through you, we were. We, like other metropolitan activity centre councils, were made aware just a few days prior to public engagement beginning by the Victorian Planning Authority, and we as a council – and any resident and business and landowner – have the same ability to make a submission to that as anyone else. And we certainly will be. Recently, at what would have been the 9 or 16 September council meeting, we resolved to make a submission, and we will be submitting it later this week.

**The DEPUTY CHAIR:** Right. So you might want to copy that to us, and we will see. But you will pick up the statutory planning activities in there, although with the res code changes you will not have much to say on many of them. A lot of it will be code assessed, as I understand it.

**Angela HUGHES:** That is correct, through you. And I think there is not information from the state government currently as to whether there are any changes to who is the responsible authority in those catchment areas. So as we understand it currently it would be the local council that is the responsible authority. That is our understanding of the information at this time.

**The DEPUTY CHAIR:** And that whole sweep going north towards Seaford, I would have thought that is quite sensitive coastal area. I would not have thought that is well suited to three- to six-storey development, but that is what is envisaged in that.

**Angela HUGHES:** That is correct. That is how the catchment area is. If you look at the boundary of the Frankston metropolitan activity centre, that catchment area extends 800 metres from the boundary outwards – unless you are in Port Phillip Bay – so it does not extend that far. It extends around the boundary. Certainly around that Seaford area we have issues around inundation and flooding. There are concerns around that, and I think in the state government's information that they have provided they talk about that being a level of detail that they will further work through.

**The DEPUTY CHAIR:** All right. Maybe we will go to the screen. Sarah.

**Sarah MANSFIELD:** Thank you. Thank you for your submission and for appearing today. I am interested in exploring that asset renewal issue a bit further. You mentioned in your presentation that things are reaching a bit of a tipping point, and in your submission you have also indicated that already you have had to make decisions to slow down your capital works program. I am wondering if you can provide some practical illustrations of what the consequences of this will be if there is not something done to address some of the structural financial problems that are leading to this growing asset renewal gap.

**Phil CANTILLON:** Thanks very much. I might actually ask the director of infrastructure to come up as well, but I will make some early comments on that. The realm we have been in the last couple of years is that we are trying to meet our operational needs and our capital needs at the same time. But given the rate revenue that is available at council's disposal – it arises from the rate collection et cetera – given the amount of money that is available, what we are seeing over the next couple of years is the amount that is available for general capital and maintenance improvements is reducing. And then what we have seen is that our ability to actually fund any larger capital works going forward, versus trying to balance our core maintenance renewal needs, is incredibly difficult, very challenging, and that means trade-offs with decisions that are made as to whether we afford to put in a grant application for this capital project or start refusing grant applications. That might be the realm we are in.

On the maintenance side, in the past we have been very proud about how we have maintained our roads and other assets through there, but our ability to sustain that going forward is getting harder and harder. Tough decisions are being made in terms of 'Can this occur that year or can we hold this out for another couple of years?' And if we are holding it out, what does it mean in terms of the short-term strategy to maintain it? Not doing a re-sheet, an overlay through there – there are going to be more potholes. How do we manage that? They are the sorts of daily decisions we are making, versus new pavilion upgrades that just do not make sense

to try and maintain, versus building something new. Our ability to fund it is not there. Our ability to maintain it is not there going forward. I do not know, Cam, whether you want to say anything as well.

**Cam ARULLANANTHAM:** Just a clear example, which you are after, is some of the roads we are meant to replace and renew. Instead of replacing and renewing them, we are doing patch-up work, patching up potholes. So what does that mean? If you renew that one in a certain area at a certain time, then it lasts longer and you get more lifecycle out of that infrastructure. But we are doing some short-term patch-up work, and that leads to the asset failing. We will have more consequences compared to fully replacing and fully reconstructing. That is an example of roads, and it applies similarly to the buildings as well.

**Sarah MANSFIELD:** Thank you. And is there a risk that the costs will actually grow because of the failure to invest in that renewal and maintenance earlier on?

**Cam ARULLANANTHAM:** Yes, absolutely. That is where the renewal target comes into play. For example, if you are regularly renewing a particular asset, you get a better life out of the asset. If you do not invest in that renewal by a certain time, you let the asset fail. That will have more capital investment than if you renew the asset and prolong the asset's life. Does that make sense?

**Sarah MANSFIELD:** Yes. Thank you. I am also interested, particularly being a bayside municipality, about the intersection between climate change and the cost impacts that that may be having on council, whether it is around existing assets or around future risk with planning and other decisions that might be made that then will shift costs to council.

**Phil CANTILLON:** Through you, Chair, on the short-term, day-to-day side of it, it is about how we maintain very simple things like our drainage network to keep the community safe and ensure access to their homes in times of need, whether it is drainage or whether it is wind and storm damage, and we have had quite a bit occur through the last couple of years. On a wider scale, I suppose some of the broader considerations are around the Melbourne Water drainage overlay work. Cam, you might want to mention some of that.

**Cam ARULLANANTHAM:** Yes. Thanks, Phil. Definitely climate change is a challenge, especially with a bayside council. For example, our up-to-date flood mapping is not in line with the expected sea level rise. We are working with Melbourne Water at this time to update the entire municipality flood level. That poses a risk to our residents. Some of them cannot insure their properties because it falls into a flood overlay, and they cannot develop their parcel of land. If they want to develop the parcel of land, the cost involved for the infrastructure is high. That is to the community. But at the same time, as Phil said, our drainage network needs to be fully redesigned to cater for that flood level risk as well. We are pretty reactive in this space. As Phil said, a classic example happened a couple of weeks ago – the landslide up at Olivers Hill. We put up hoardings in that area to prevent people from accessing it, and we are closely working with the state government at the moment to understand what the permanent solution is going to be.

**Sarah MANSFIELD:** Yes. Thank you. Thanks, Chair.

**Rachel PAYNE:** Thank you for coming today and for presenting. My name is Rachel Payne. I represent the south-east. Full disclosure, I am a resident of Frankston and a ratepayer as well. I just want to thank you for appearing today. I would like to talk about the overhaul of rate capping that you have proposed, and I guess it would be good to understand what you envisage that that could potentially do. And how do you balance the cost shift on to ratepayers, for example, with the cost-of-living pressures for residents?

**Phil CANTILLON:** Through you, Chair, that is a great question. We have got various details in our submission, but the key thing is we acknowledge and understand rate capping – why it is here and what it is trying to achieve. But I think what we are advocating in the submission is to review the effectiveness of it and what impacts it has – what it provides in the good times and what it does not provide in the bad times – to come up with that happy medium through there. In terms of balancing, to give you an example on the cost shifting, there are several examples of that from the election costs but just simple things like when I was walking over here one example that was provided was a seniors festival. We used to get \$10,000 to support the seniors festival. We do not get that now. Do we not provide the seniors festival?

**The DEPUTY CHAIR:** You did. I remember.

**Phil CANTILLON:** Yes, and they are the sort of competing decisions that we have to make more and more because they are the decisions that are coming out that we have to balance with. Now, does that get factored into how the rate cap is approached or does that get factored into this longer term conversation with local government as to the sorts of sustainable funding levels it can expect to see in the future and how it might maturely adapt its programs going forward rather than getting potentially a short-term decision that says funding one year is changing the next year. That is probably not a good way to go.

**Rachel PAYNE:** Do you get much of a sense from residents, because I do note that when you receive your rates you have options to pay in instalments. There are ways to alleviate it being a huge bill essentially annually, and then there is sort of a breakdown of how your rates are to be used and what they will be spent on. I think that does give residents a clear indication of where that money does go and what it is used on. Do you get much of a sense from residents that they would be inclined to support a slight increase if it meant that all service provisions were sustainable?

**Phil CANTILLON:** Through you, Chair, that is a really great question as well. I do not think that is a role probably for local government to necessarily dictate. Obviously we will be seeking a rate cap variation with the waste service charges. But there needs to be a more strategic conversation led by the government in terms of actually how that occurs, otherwise you are just trading off one conversation in one municipality versus another conversation in another. It is not productive, and it is not a longer term sustainable outcome or discussion going forward. It needs to be something that is led more broadly by local government as to what that should be and why and how that might adapt. I do not know, Kim, whether you want to mention anything on this one.

**Kim JAENSCH:** No, I think that is really a good response in terms of it is something that we are open to having conversations about, the methodology going forward, to ensure that each council can deliver a sustainable future, because there are various needs based on demographics from council to council, whether you are bayside or you are not. There are some conversations that could be really valuable for us to work on – what the best strategic approach is.

**Phil CANTILLON:** If I may just add to that – through you, Chair – we know the role that councils play, and particularly Frankston is vital for the community. We saw that through COVID; we see that now. We are the closest on the ground. We represent their views and their demands and interests for key services but also their aspirations for the future. We play a really critical role in terms of melding all those conversations through an elected council body, who do a great job in taking that together to form a council plan. That is four-year strategic decision-making there as to what we are doing. But in that four-year timeframe we could see an erosion of our funding base, which we might have expected to see. So it needs to be a much longer conversation to provide certainty not just for the local communities but for the sector as a whole.

**Rachel PAYNE:** Most certainly. If I may, Chair, have I got time for one more question?

**The DEPUTY CHAIR:** Go.

**Rachel PAYNE:** We have talked about the development revitalisation a little bit. The activity centre has been announced; Frankston is in a time of real change. I am hearing from residents and there have been concerns raised around sustainable planning and development but also environmental impacts, particularly around the Nepean Highway and Kananook Creek and some of that Seaford wetlands area. What I am wanting to talk about is what sort of impact the development is going to have on the bottom line for council. Is there a requirement for you to then have to ensure that there is delivery of infrastructure and amenities? Also how do we reassure residents that the appropriate checks and balances are going ahead and in place rather than developers just coming in and building up the foreshore?

**Phil CANTILLON:** Through you, Chair, I might bring Ange in. I will have a shot, and there might be something from Kim as well.

**Rachel PAYNE:** It is a two-pronged question, I do realise. It is probably a bit bigger than the 2 minutes I have got.

**Phil CANTILLON:** Yes, that is right. There is a lot in there, so I will bring them in just in case I miss something. What is really important about Frankston is having a structure plan. We did not have any height controls for a number of years. Structure plans – you age; you get old in that horizon timeframe where you can

actually get them done. But now we have got something there that is supported by the guidelines that sort of flesh out how the structure plan would operate. In the background it is also proposed that a developer contribution scheme goes through there. The structure plan plans out our private areas, but also we do a lot of work in planning out our public areas that we own, with the best timing to ensure that if the growth and development does occur in a particular location, like in a growth council, we will look at the infrastructure needs through there – whether it is Kananook Creek, whether it is a drainage network, whether it is about traffic modelling. By way of example, on the Nepean Highway we have got 800,000 vehicles a day going through there. We know that the Nepean Highway, through the structure plan, will be a core focus for future growth and development in line with the structure plan guidelines providing for setbacks and a whole range of things through there. But we need to look at the traffic modelling for how the Nepean Highway works in conjunction with our other road systems. We are having a very constructive conversation with the state government about that.

**Rachel PAYNE:** Good.

**Phil CANTILLON:** The point I want to make is that we are looking at all the things that arise from having a structure plan, whether it is traffic modelling, whether it is the impacts on our drainage networks, whether it is our urban streetscapes, but all of those conversations rely on a very mature relationship with the state government in terms of having a similar view as to how that is best taken forward and on what horizon that occurs. And also it can involve requiring a partnership relation in terms of how you fund things. It might be operational funding, it might be capital funding, but all of that is really important, and they are things that may not necessarily be in the rate cap. But that is where we have come in our proposal and said that if we are going to look at appropriate funding levels for capital going forward, if it is state and local government, we do not want to receive \$500,000 when the cost might be \$600,000. Let us go \$3 million each if we can see from a longer-term vision that is something that is particularly important in that location, for both council and the state government, to occur.

**Rachel PAYNE:** Great. Thank you.

**The DEPUTY CHAIR:** John.

**John BERGER:** Thank you, Deputy Chair. Thank you all for your appearance today. I note in your submission you have had some challenges with relation to the workforce and some of the things that impact it, in particular with identifying some of the skills gaps. Are you able to give this hearing some insight into what that means for your council?

**Phil CANTILLON:** I will give you one example, if you like, that comes to mind, through you, Chair. To have a structure plan, if I can put it that way – and you know that you are going to get more development going through there – the issue is how that cascades through your planning of your work through to how your organisation responds to planning applications that may come through council. So what we actually did probably about 18 months ago was restructure and change the way our planning teams would work to be able to attract the right people to those roles with appropriate salaries to be able to respond to those demands when they occur. The cost to the balance sheet probably increased, with changing that for council, but we saw that as something that we needed to do because we would not be prepared to be able to respond to future development applications that come through and all the questions that arise from it, not just from a planning point of view, but also some of the building processes that occur through there. And the staff in those areas are highly skilled. They are highly valued. In some situations, depending on the areas that they are working in, they are rare as hen's teeth. How do we compete with other parts of the sector who are crying out for the same resources and highly skilled people to actually carry out those tasks? I do not know whether there is a better example that we might want to provide, but that might assist, if it does.

**John BERGER:** Do you see that this inquiry might be able to assist in identifying how councils might go about making that issue a lot easier for them? We have heard in different areas that surveyors have been a real topical position to try and find. I just wonder whether there is enough interest for councils to get involved in TAFEs and things of that nature in order to get the skills that are required in that particular area.

**Phil CANTILLON:** Through you, Chair, building surveyors are a great example. Again, they are rare as hen's teeth. Each council will probably end up paying more than the council next to them to access them, but if



you do not have a building surveyor you are relying on the private sector, so it is what role do we want to play? Environmental health officers are very important. They provide an incredibly valuable service for the community. They are local, they deal with the local issues and they understand the businesses that are out there, but if we did not have them, that would be outsourced to a private sector organisation. Which is the better one?

**Bev McARTHUR:** It might be cheaper.

**Phil CANTILLON:** Well, it might be cheaper, but a lot of times you are looking at a value proposition, which may not necessarily be about cost, it might be a whole range of factors. Maturely in Frankston we look at the value of providing that. We are providing our own building surveyor services and we are providing our own environmental health services because we see the value of that in the community. But for a lot of local governments generally it is a difficult road to follow because they cannot sustain that.

**John BERGER:** Thanks, Deputy Chair.

**The DEPUTY CHAIR:** Beverley.

**Bev McARTHUR:** Thank you, Deputy Chair. Ms Jaensch, did I hear you correctly before, when you gave your opening address, suggesting that regarding candidates standing for this council election, you are critical of them advocating for rate reductions or rates freezes?

**Kim JAENSCH:** Through you, Chair, no, I did not criticise that as an approach or their campaign. What I do say is that is what is existing in the community, what the candidates are advocating for or wanting to be elected based on.

**Bev McARTHUR:** And you did say it would be problematic?

**Kim JAENSCH:** It will be problematic, yes, for council.

**Bev McARTHUR:** This council has been involved in its own cost shifting, hasn't it? Hasn't it shifted \$10 million of waste collection charges onto the ratepayer, against the ministerial guidelines?

**Phil CANTILLON:** No, I think we should clarify that.

**Kim JAENSCH:** Through the Chair, those costs have to be funded, whether it is through a waste charge or through the rates.

**Bev McARTHUR:** They were previously part of your own budget, but you have moved them onto a waste collection charge outside of rates.

**Kim JAENSCH:** Through the Chair, what we had done was separate those costs to make it very transparent to the community that these are the costs of providing those services. At the time that that was transferred, the rates were not increased. So that is what happened, and that was many, many, many years ago.

**Bev McARTHUR:** You have told us all about cost shifting. It is a significant factor, and we are very critical of the state government for cost shifting. But rate caps are the only bulwark ratepayers have got against excessive spending of local government, and they are basically the ratepayers best friend, really. Perhaps there should be a tax cap at a state level to stop the state government taxing people more. But you mentioned I think kindergarten as one of the cost-shifting areas. We understand from the state government that kindergarten, three-year-old kindergarten particularly, is free. Is it not free? Are you incurring costs to provide kindergarten, for instance?

**Phil CANTILLON:** Through you, Chair, no, the example we have provided in there is to provide the infrastructure for the kindergartens.

**Bev McARTHUR:** So the ratepayers are picking up the bill for three-year-old kindergarten?

**Phil CANTILLON:** \$13 million is –

**Bev McARTHUR:** \$13 million?

**Phil CANTILLON:** Yes – in unplanned upgrades and redevelopment of existing facilities is what we forecast at this stage and into the future.

**Bev McARTHUR:** Right. Let us be very clear about this: the three-year-old kindergarten provision that the state government have announced is costing this council \$13 million in upgrade requirements.

**Cam ARULLANANTHAM:** Yes. Through you, Chair, the current kindergarten facilities do not cater for three-year-olds; they only start from four-year-olds. If you are involving three-year-olds, we have to expand the building. We have to provide not only the building, but for each and every playroom we have to come up with a play space as well. So there is the building expansion and the landscape expansion. We do get a grant from state government to support this reform; however, it is not fully funded by state government. All of the kindergartens that we are upgrading –

**Bev McARTHUR:** You are \$13 million short.

**Cam ARULLANANTHAM:** \$13 million is what council put forward to support this.

**Bev McARTHUR:** So ratepayers are picking up the tab for \$13 million for this free three-year-old kindergarten?

**Cam ARULLANANTHAM:** Correct.

**Bev McARTHUR:** Correct. Okay, great. We have got that. And you roll out the vaccination program, do you, here at Frankston?

**Angela HUGHES:** Yes.

**Bev McARTHUR:** So did you get an email from the state government suggesting that you would now be up for a \$6000 administration charge and a \$2 jab charge?

**Angela HUGHES:** Yes, we did. We recently –

**Bev McARTHUR:** And what have you said to the state government about that?

**Angela HUGHES:** I think we have asked questions around what that is, why the cost is coming our way and if there is any, I suppose, negotiation around what the cost might be.

**Bev McARTHUR:** Well, you could say, ‘We’re not going to provide that service any longer. We’ll hand it back to the health department to provide the local health service’ – couldn’t you?

**Angela HUGHES:** We most certainly could, and I suppose because the communication was received with not much warning –

**Bev McARTHUR:** None, I am told.

**Angela HUGHES:** we are seeking information before making a decision on the service. I think Frankston, like many communities, is a vulnerable community, and I need to weigh up the benefit of that approach.

**Bev McARTHUR:** Yes. So that is a serious cost-shifting approach from state government with no notice, no consultation, nothing. You were providing that service before, but it was fully funded by the state government, and now all of a sudden it is not. I understand from some municipalities that when they have made application to the government on this, they have said, ‘Oh well, we’ll halve the administration costs.’ Was it an ambit claim, do you think?

**Angela HUGHES:** Gosh. I could not guess. I have not heard before that the state government have offered to halve the fee in that regard.

**Bev McARTHUR:** Are you going to roll out the rainbow toolkit that the government have asked libraries to roll out? Do you have a library that you run, the council?

**Shweta BABBAR:** Through you, Chair, yes, we do have a library, and we are working on the rollout of the kit as instructed by state government. We are not ruling it out as is. We are also consulting our community to understand what the expectation requirement is, while we will do the rollout that works for our community.

**Bev McARTHUR:** How are you consulting with the community on this?

**Shweta BABBAR:** Because every council has to do a new council plan and we also have had to revisit our community vision, we have just very recently undertaken a massive engagement piece with our community, and there were a number of different options, treatments and techniques for the community to respond to the survey and their expectations, needs, requirements et cetera. So through that, we have just undertaken a big community consultation.

**Bev McARTHUR:** Are you asking them if five-year-olds should be asked for their pronouns?

**Shweta BABBAR:** Not to that level – through you, Chair – and the –

**Bev McARTHUR:** But that is the toolkit that you are potentially rolling out.

**Shweta BABBAR:** No, so as I said, we are considering the toolkit that has been given to us. It is being evaluated by our library's team and also by understanding the requirement from our community before we roll out anything.

**Evan MULHOLLAND:** Do you have an estimation of – and I know your colleagues at Mornington did – the total cost of cost shifting by council? I know you said that kinder would cost you in the order of \$13 million, but are there other ones, and can you give some sort of approximate estimate?

**Phil CANTILLON:** Yes. Through you, Chair, no, we have not sat down and actually worked out a total, but we are seeing it and we have given examples of it, and it is occurring regularly and progressively. The most recent ones, we said in there, were the election services. We have given an example on the libraries – the cost shifting there, the funding through there. We have got an example on the Kananook dredging.

**Evan MULHOLLAND:** If it is going from a 50 per cent to a 70 per cent burden on council, do you know the cost of that gap?

**Phil CANTILLON:** No. That is right. For Kananook dredging that is 250 annually. That is the total impact there.

**Evan MULHOLLAND:** 250 million?

**Phil CANTILLON:** 250 on running the election communications; kindergarten reforms, not fully funded; libraries, 80 per cent funded; and Community Support Frankston – you know, they were incredibly vital through COVID. We have continued to support them, but the short-term funding relief has been at least \$350,000 for us to be able to provide that relief in the community through their WorkCover premiums – that was another example, a very large one through there. The list goes through it. As Kim Jaensch said before and as you said, the grants that we actually get might be low interest loans, and we are hedging the interest rate increase –

**Evan MULHOLLAND:** Which is quite costly, in the order of hundreds of thousands of dollars.

**Phil CANTILLON:** Yes.

**Evan MULHOLLAND:** Your council has increased rates to the cap. What would be the cost of doing that? In the last financial year, what was the cost? What was the additional revenue gained by doing that?

**Kim JAENSCH:** I think last year it was 2.75 per cent. I am not sure I have got the actual value that that meant, but an estimate is about an extra \$2.5 million.

**Evan MULHOLLAND:** Yes. I will put to you that a lot of attention was put on your council at the Dunkley by-election, and the Labor Party made a big deal of saying that your mayor and your council have increased

rates to the maximum amount. I will put to you, just by the numbers you have mentioned, that the cost of cost shifting to your council is larger than the increase in rates that you have been forced to make.

**Kim JAENSCH:** Through you, Chair, the comment we would make is that the costs of providing services each year to the community have far exceeded what the rate cap amount is in extra income. It is not just about cost shifting, it is also about everything else that we are experiencing, such as manufacturing costs, construction and all those additional costs.

**Bev McARTHUR:** Salaries.

**Evan MULHOLLAND:** Yes.

**Kim JAENSCH:** Even WorkCover has increased incredibly.

**Evan MULHOLLAND:** So I would suggest then that if the Labor Party and the Member for Frankston want to make accusations at the council, they should look at their own government. That is just a comment, and I am all done.

**The DEPUTY CHAIR:** Michael.

**Michael GALEA:** Thank you, Deputy Chair. Thank you very much for joining us today. I did want to actually ask about FMAC as well. We have already covered it in a little bit of detail, but I know that is a very exciting part of the council's vision for the future of central Frankston in particular. We know it is Melbourne's premier Bayside city. Why wouldn't you want to live here? Providing those housing options is going to be all the more important, especially in the context of those broader metropolitan statewide changes that are happening. I will not delve too much into the particular benefits that I was going to ask about, but I do want to ask about development contribution plans and the role which council sees them having and, in particular as well, if there is any change to the way that they are managed that you would like to be considered. For example, would you like to be able to invest those funds more vigorously or use them in different ways?

**Phil CANTILLON:** I might make, through you, Chair, a couple of comments on that and then I will hand over to Angela Hughes to say a little bit more. It was interesting when we set about the DCP scheme what the priority of projects were that would form the basis of a DCP scheme going forward. I think we started off with about 18 projects that have scaled back to about three that we could sustainably recover through a DCP scheme. But I would make the observation that of those three that we put forward there are probably 14 or 15 that are unfunded going forward. So we have made suggestions on wider DCP scheme arrangements as part of the *Plan for Victoria* submission. I might hand it over to Ange to give some insight into that.

**Michael GALEA:** Thank you.

**Angela HUGHES:** Thank you. Certainly through FMAC and even to some extent the catchments zones there will be an increase in housing and therefore an increase in the infrastructure that is needed or will be used. We currently are running a planning scheme amendment seeking to apply a development contribution scheme to development that is in the FMAC. But as we run this planning scheme amendment, there are developments that have received approval through VCAT or through a council planning permission that will go ahead without having to make that contribution because it is not in the planning scheme. We are mindful of that.

I think also, as Phil was saying, any development contribution scheme currently under the *Planning and Environment Act* certainly recovers, I suppose, a monetary contribution from the developer, usually per net new dwelling, but it also requires council to share the cost of that infrastructure. There is just that widening gap and those volatilities within the construction market as to the infrastructure costs versus a static figure that exists in a planning scheme and takes many months and a long process to change. Also, through our *Plan for Victoria* submission we have talked about just the impact on existing infrastructure. Often through new development you can receive a contribution from a developer for new infrastructure, but there are then still these existing roads or existing footpaths or whatever it might be that have more people and that sits within the remit of council as part of our maintenance work.

I think just finally, through our discussions with the state government – and we do have good relations with them – it is just around state infrastructure. Nepean Highway is a good example. Currently under Victorian

planning provisions money collected from a developer through contributions cannot be spent on state infrastructure, whereas Nepean Highway – and we envisage it to be Nepean Boulevard – is an attractor to this area. It is one of the many paths people follow to come into Frankston CBD, and potentially there is this mismatching infrastructure investment between that key entry and other parts.

**Michael GALEA:** That is very helpful feedback. Thank you. Just quickly, the planning amendment, is that C161fran or is that another one?

**Angela HUGHES:** Through you, Chair, no, 161 is the development contribution plan and 160 is the FMAC structure plan. They are being dealt with separately.

**Michael GALEA:** Thank you. If I may, Chair, I have one more substantive question. I just want to talk about waste charges as well. I know there is a bit of history to this as well, but street sweeping, litter bins and the regional recycling and recovery centre are all part of the charges that you are now having an issue with. Noting that the directive came as a result of an Ombudsman inquiry into another council allegedly overcharging its ratepayers for those waste charges, I guess taking into account the fact that Frankston is such a hub and an activity centre for people from Casey, Kingston, Mornington Peninsula and beyond and draws people into the activity centre and to Victoria's best beach, for example, to what degree do you think ratepayers through the waste charges should be paying for those sorts of more general waste services, and is there another way forward that you would see as the best solution to threading that needle?

**Kim JAENSCH:** Through the Chair, there are other services that we provide to other municipalities. They come to us for the waterfront festivals. They use libraries and they use our roads and everything else. So I would say the residents currently pay for those costs at the moment, so how fair is that? Somebody has to pay for them, no matter which municipality. So in terms of the waste, at the end of the day, the waste charges will be paid by the ratepayers, whether it is through a general rate or through a waste charge. Those costs and those services must be delivered. They have to be delivered. If we do not –

**The DEPUTY CHAIR:** It could be ugly.

**Kim JAENSCH:** Yes, and if we do not have a rate exemption, we have to find those millions of dollars elsewhere, and currently we would have to reduce other services, so that's the trade-off, really. All we are saying is that the rate exemption for all councils – make it consistent across all councils. Do it as a one-off so that we all start on the right base – so that we have all got guidelines that become set in stone and can move forward and be able to still provide services that we must provide.

**Michael GALEA:** Thank you, all. Thank you, Chair.

**The DEPUTY CHAIR:** I am conscious that we are pretty much done on time. I just have one question about energy costs and whether you have – and you will not have it now, I suspect – a time series over about five years, just looking at the shift in energy costs that you are picking up.

**Phil CANTILLON:** Through you, Chair, we might take that on notice. We actually give quite a comprehensive climate action strategy report to council, and it does track our energy costs through there. I do not know whether, Cam, you want to say any more.

**Cam ARULLANANTHAM:** Through the Chair, I did not catch the question.

**The DEPUTY CHAIR:** It is just about energy costs that the municipality is incurring and the shift in those over the last five years.

**Cam ARULLANANTHAM:** Obviously energy costs have increased by 300 per cent.

**The DEPUTY CHAIR:** Over what time?

**Cam ARULLANANTHAM:** Due to COVID or just after COVID, and that has had real consequences for construction, materials and everything we do. Steel prices depend on energy. Every construction material depends on energy. That has an indirect impact on council.

**The DEPUTY CHAIR:** I will make it clear: it is nothing to do with COVID, that the energy costs have gone up.

**Cam ARULLANANTHAM:** We observed that, but I am not sure whether –

**The DEPUTY CHAIR:** Yes, it is in the last five years I think.

**Cam ARULLANANTHAM:** Yes, in the last five years they have gone up. But in terms of how council is managing it now, we are trying to have all the buildings as gas-free buildings because gas has a significant cost impact for us. We are embarking on a journey to have more electric options.

**The DEPUTY CHAIR:** How much is that costing, to get rid of all the gas appliances?

**Cam ARULLANANTHAM:** I cannot tell you how much that is at the moment.

**The DEPUTY CHAIR:** I am conscious that we are out of time. Maybe also a point on notice: just picking up Mr Galea's points about various development contributions, the windfall gains tax – is that going to impact on the Frankston activity centre?

**Angela HUGHES:** Through you, Chair – yes, it has an impact. Much of the Frankston CBD or the Frankston MAC area is in a commercial zone. So with the windfall gains tax we are proposing that it be zoned as an activity centre zone from the commercial zone. There is an impact from the windfall gains tax. It is not as significant as some of those, what I would call, bigger step changes in planning zones, from perhaps agricultural land or green wedge to residential. I think there are scales of impact.

**The DEPUTY CHAIR:** But you do not get it anyway. It goes to the centre.

**Angela HUGHES:** That is correct. It does not come to council. I think depending on which zone it is and which zone it is going to, the windfall gains tax has a different impact. But you are right, the tax goes elsewhere.

**Bev McARTHUR:** But the ratepayers have to pick up the bill for the extra infrastructure required.

**Phil CANTILLON:** In the public areas.

**Angela HUGHES:** In the public areas – that is correct.

**The DEPUTY CHAIR:** Are there any other questions? All right. I thank the six of you for giving evidence. It has been a tag team performance and very impressive, so thank you.

**Witnesses withdrew.**