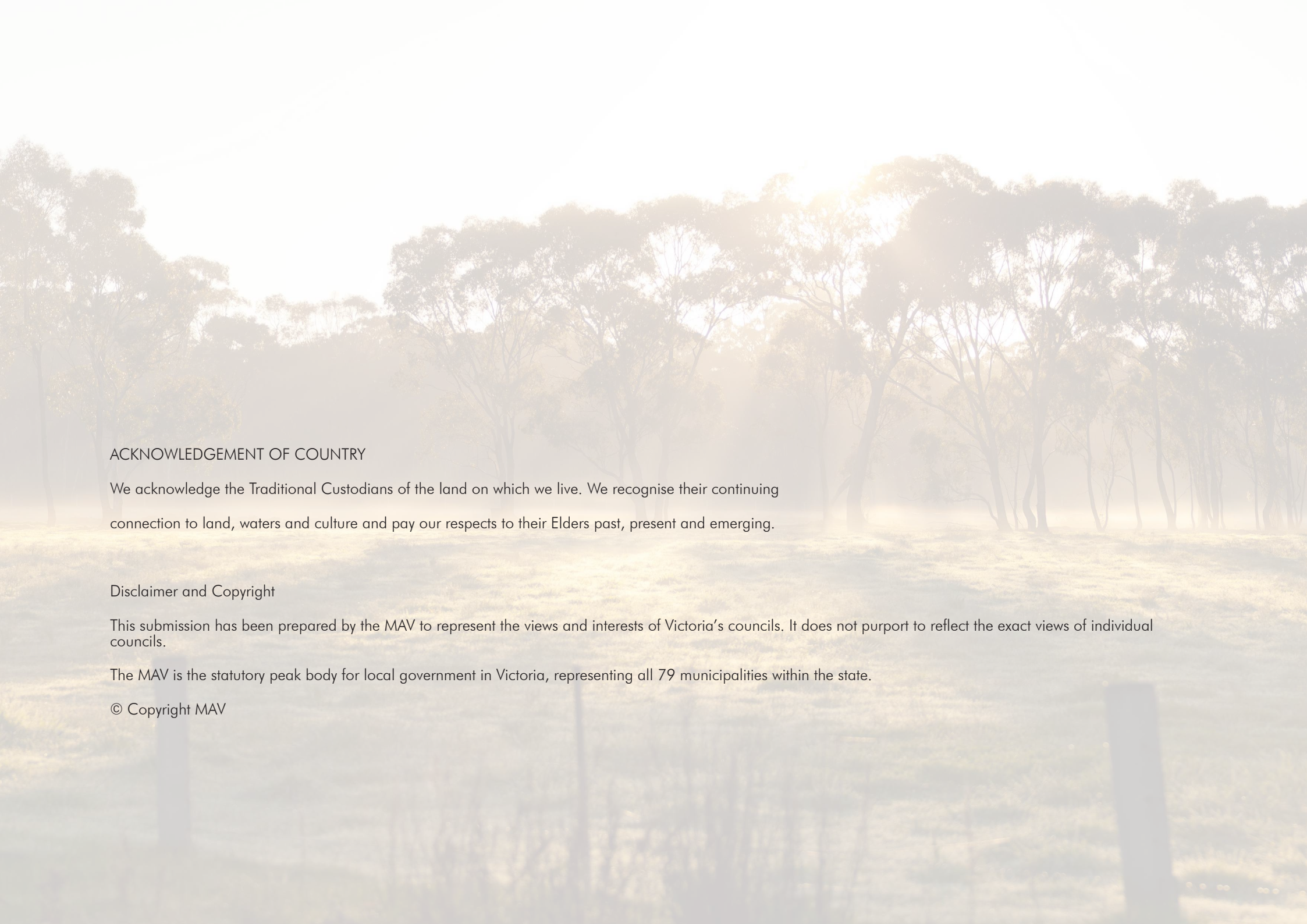




MUNICIPAL ASSOCIATION OF VICTORIA



SUBMISSION TO PARLIAMENTARY INQUIRY INTO
LOCAL GOVERNMENT SUSTAINABILITY

A misty landscape with a line of trees and a fence in the foreground. The sun is low in the sky, creating a warm, hazy atmosphere. The trees are silhouetted against the bright sky, and the ground is covered in grass and low-lying vegetation. A fence is visible in the foreground, partially obscured by the mist.

ACKNOWLEDGEMENT OF COUNTRY

We acknowledge the Traditional Custodians of the land on which we live. We recognise their continuing connection to land, waters and culture and pay our respects to their Elders past, present and emerging.

Disclaimer and Copyright

This submission has been prepared by the MAV to represent the views and interests of Victoria's councils. It does not purport to reflect the exact views of individual councils.

The MAV is the statutory peak body for local government in Victoria, representing all 79 municipalities within the state.

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EXECUTIVE SUMMARY

No one understands the challenges and opportunities facing Victoria in the 21st century better than local councils. From rapidly evolving technology to social changes, shifting economies to environmental pressures, our local communities— and the local governments that represent them—are at the forefront of multiple transformations happening simultaneously.

Victorian councils are delivering the essential services and infrastructure to meet local and national priorities across numerous areas including community resilience, social cohesion and safety, climate change, and housing.

The direct connection between councillors and council staff and the communities they serve means councils are best placed to understand, anticipate, and respond to the needs of those communities. To efficiently deliver on local, regional, and national priorities we need to harness this local government knowledge and expertise.

Current funding models leave councils under-resourced and uncertain about their financial futures. Many are forced to make hard decisions about which essential community services to exit. For example, across Victoria many councils are exiting the provision of aged care, as their overall financial position means they can't carry the risk of an uncertain funding model.

Early years education and care in Victoria couldn't exist without council facilities, contributing to and enabling national productivity

outcomes. Increasingly Victorian councils are withdrawing from early years service and infrastructure provision due to escalating infrastructure costs and workforce shortages.

Financially sustainable councils can, and are often required to, step in and respond to issues as they emerge - from addressing social issues to emergency response and recovery. We need to ensure that councils have the ongoing capacity to prevent, step in and respond to local issues as they arise.

Brimbank Council in Melbourne's west is pro-actively targeting unemployment through mentoring programs and micro-credential courses. These types of programs can't happen without financial security for councils.

There are serious risks to the financial sustainability of Victorian councils. Increasingly, councils report underlying deficits, reductions in unrestricted cash and working capital, and deteriorating asset renewal rates.

The Australian system of government is built on an assumption of revenue sharing from higher levels of government to more localised ones. This addresses both the revenue-raising and service delivery imbalance between tiers of government and diverse needs between jurisdictions.

These assumptions have eroded over time, exacerbated by cost shifting, with councils and local communities bearing the cost. As a share of Commonwealth tax receipts, Financial

Assistance Grants are now the lowest they have ever been.

For every dollar of revenue they collect, Victorian councils manage \$10 of physical assets like parks, and roads and kindergartens. For the Victorian Government this figure is \$4, and for the Commonwealth \$0.40

The benefits of addressing these problems are numerous, diverse, and immediate.

Financially secure councils are more proactive, from providing preventative maintenance to shaping a circular economy or prioritising continuous improvement in service delivery.

Victoria's 79 councils are incubators for innovation. A partnership between Bass Coast, Baw Baw, and South Gippsland Shire Councils established MyLi as the first library corporation to be a registered not for profit and has since expanded to service Cardinia Shire.

Councils are also economic drivers and provide high quality stable jobs to over 40,000 Victorians. The Australian Local Government Association estimates restoring Financial Assistance Grants to 1% of Commonwealth tax receipts would support over 22,000 additional FTE of jobs and increase Gross Regional Product 1.4 times greater than the investment required ¹.

Trust in government has never been a more important resource. Victorian councils want to partner with their state and federal counterparts in building social cohesion and realising their communities' aspirations. They need a funding model that affords them the capacity to do so.

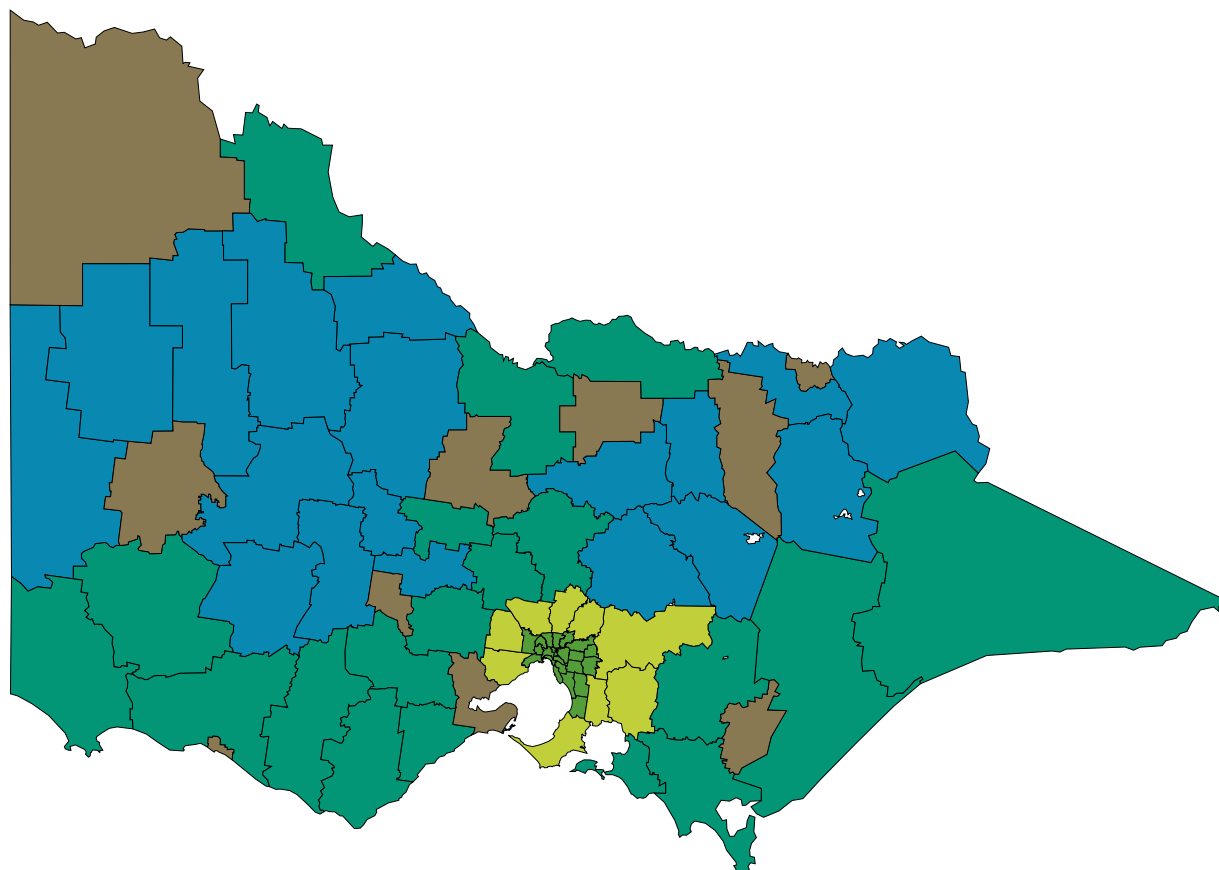
RECOMMENDATIONS

1. Increase the quantum of Financial Assistance Grants to 1% of Commonwealth tax revenue
2. Make grants more productive by:
 - a. Reducing administrative burden
 - b. Easing co-contribution requirements
 - c. Allowing for more flexible timelines
 - d. Expanding eligible projects beyond just shovel-ready infrastructure
 - e. Reinstating, restoring, or reinvigorating funding streams like the Local Roads and Community Infrastructure fund
3. Partner with local government, particularly to deliver technology transformation and climate change adaptation and mitigation and community resilience.
4. Address critical skill shortages through tertiary education and skilled migration pathways
5. Incorporate principles of betterment into the Disaster Recovery Funding Arrangements at a national level
6. Ambitiously pursue product stewardship to incentivise reducing waste and ensure the costs of waste are borne by those who create it



VICTORIAN LOCAL GOVERNMENT





Victorian local government is made up of 79 councils representing the state's more than six million people.

Councils are area-based representative governments with a legislative and electoral mandate to manage local issues and plan for the community's needs.

Councils and the communities they represent are diverse. Council populations range from 3,000 people to more than 340,000. The largest local government area spans 22,000 square kilometres, and the smallest just 8.6. Budgets range from \$13 million to \$580 million and collectively councils manage over \$140 billion in physical assets and infrastructure.

The functions councils perform are just as diverse. From emergency management to economic development, maternal and child health to kindergarten, food safety to road management.

Victoria's councils are commonly divided into five comparator groups which will be used throughout this submission and are summarised on this page.

Victorian council comparator groups

		Population	Revenue	Physical Assets	Workforce FTE
		Range [Median]	Range [Median]	Range [Median]	Range [Median]
	Metropolitan	92,000 - 204,000 [149,000]	\$161m - \$567m [\$229m]	\$1.35bn - \$4.73bn [\$2.76bn]	468 - 2453 [707]
	Interface	63,000 - 390,000 [206,000]	\$113m - \$782m [\$407m]	\$0.91bn - \$6.64bn [\$3.75bn]	324 - 1461 [700]
	Regional City	20,000 - 282,000 [63,000]	\$66m - \$619m [\$164m]	\$0.63bn - \$4.7bn [\$1.19bn]	212 - 1597 [419]
	Large Shire	16,000 - 61,000 [31,000]	\$51m - \$180m [\$97m]	\$0.42bn - \$1.44bn [\$0.77bn]	171 - 358 [265]
	Small Shire	3,200 - 18,000 [11,000]	\$15m - \$54m [\$41m]	\$0.17bn - \$0.48bn [\$0.29bn]	41 - 197 [117]

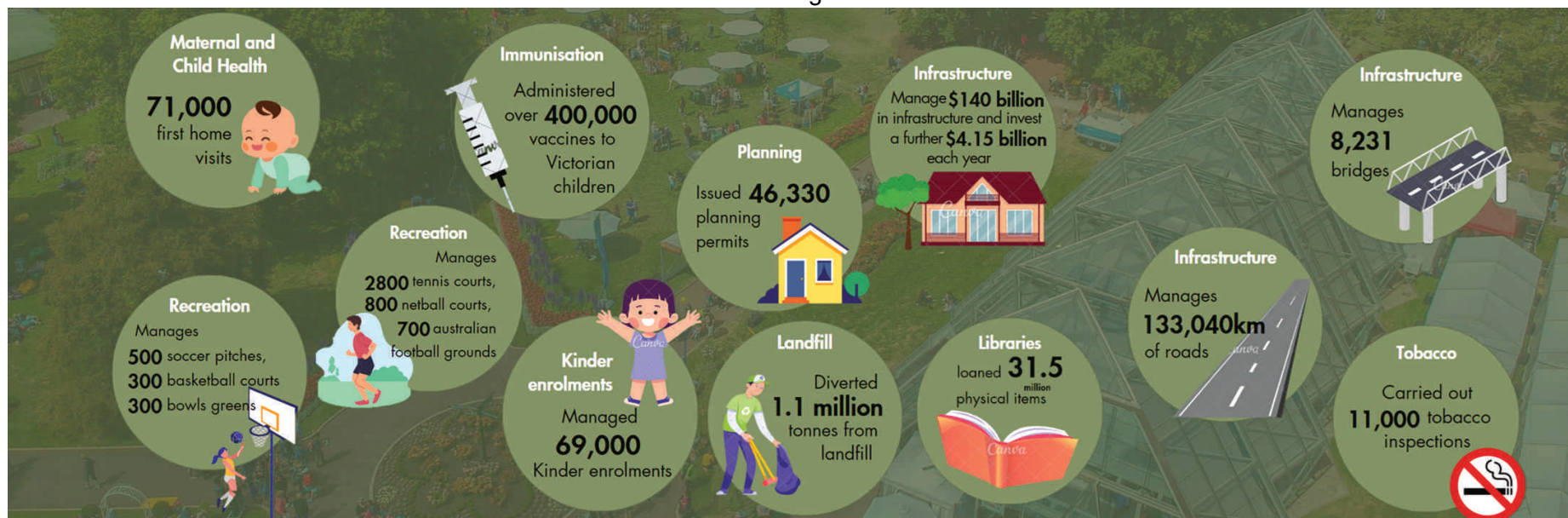
Source: MAV, data source: Victorian Auditor General's Office - Audited financial statements of councils, Australian Bureau of Statistics - Estimated Regional Population, Victorian Local Government Grants Commission - Council Employment survey

The breadth of activities undertaken by councils touch every resident in their day-to-day life. To name just a portion:

- Road management and maintenance
- Aged care
- Protecting historic buildings
- Promoting local tourism
- Conducting citizenship ceremonies
- Library services
- Community buses
- Kindergarten
- Managing permits for on-street trading and busking
- Regulating prescribed premises such as food businesses, beauty and body art salons, and rooming houses
- Assessing and issuing planning permits
- Regulating the safety and compliance of buildings

- Kerbside and public bin collections
- Street sweeping, litter management and graffiti removal
- Supporting community groups through grants and advice
- Prevention of Violence Against Women and gender equity
- Emergency management
- Street tree and public tree planting and maintenance
- Issuing permits for septic tanks
- Roadside pest and weed control
- Investigating and addressing nuisance complaints
- Neighbourhood and community houses
- Maternal and Child Health services
- Immunisation
- Sport and recreation facilities
- Resident and disabled parking permits
- Animal welfare and registration

- Public parks, gardens, and playgrounds
- Stormwater management
- Active transport routes
- Noise from residential buildings or residential construction sites
- Foreshore and waterfront management
- Youth centres and programs
- Regional airports
- Promoting diversity and inclusion
- Strategic planning
- Childcare
- Street lighting
- Supporting local businesses and chambers of commerce



Selected Victorian council activities based on 2022-23 data. Source: MAV

Fiscal Relations

Government fiscal relations in Australia operate on principles of vertical fiscal imbalance (VFI) and horizontal fiscal equalisation (HFE).

VFI means that the revenue raising powers across different levels of government do not reflect their expenditure needs. In Australia over the last decade the Commonwealth has collected 81% of total tax revenue, the States and Territories 15.5% and local governments the remaining 3.5%. By comparison local governments manage 25% of public non-financial assets and states and territories 65% while the Commonwealth manages only 10%.

To put this in a Victorian context, for every dollar of revenue they collect, Victorian councils manage \$10 of physical assets like

parks and roads and kindergartens. For the Victorian Government this figure is \$4, and for the Commonwealth \$0.40.

Transfers such as Financial Assistance Grants are not a nicety, they are a

For every dollar of revenue they collect, Victorian councils manage \$10 of physical assets like parks, and roads and kindergartens. For the Victorian Government this figure is \$4, and for the Commonwealth \$0.40

fundamental part of how Australian government works. However, as a percentage of Commonwealth tax receipts they have now reached historic lows. This, combined with State-based constraints on own-source revenue has left many Victorian councils struggling to find the necessary funds to continue services.

The other principle is that of horizontal fiscal equalisation (HFE). This recognises that across jurisdictions at the same level of

government, the capacity to raise revenue and the costs of performing functions varies significantly.

HFE proposes that different jurisdictions should be able to provide similar levels of

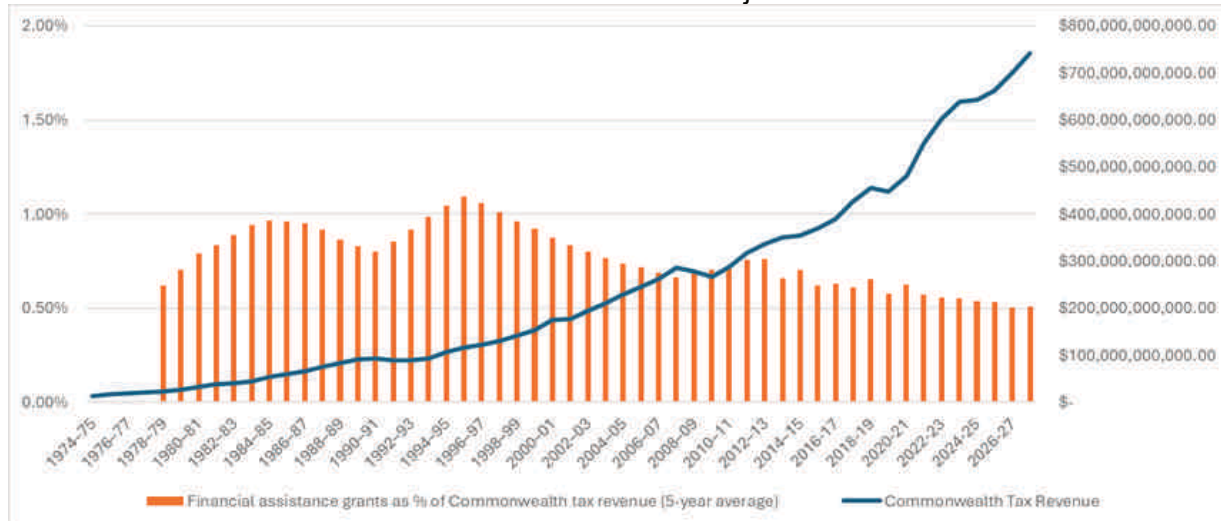
service to their communities at a similar level of burden.

In Victoria the Victorian Local Government Grants Commission assesses cost and revenue modifiers in determining the share of Financial Assistance Grants that is distributed to each council.

Cost modifiers include proportions of aged pensioners, indigenous people, and people under 6 within the population, environmental risk from fire and flood, languages spoken, socio-economic status within the municipality, remoteness and population dispersal, tourism, and whether the council provides or draws from broader regional services.

Revenue modifiers include household income, the proportion of valuations which are commercial properties, and the value of development occurring.

In general, these factors identify rural councils as being less able to raise revenue and facing higher costs to deliver equivalent service levels than metropolitan councils, though there are exceptions.



Source: MAV, data sources: Australian Bureau of Statistics – Taxation Revenue, Reserve Bank of Australia – Commonwealth Government Taxation Receipts, Department of Infrastructure, Transport, Regional Development, Communications and the Arts – Financial Assistance Grants Cash Payments & Local Government National Reports

Key Indicators

There are serious risks to the financial sustainability of Victorian councils. Increasingly, councils report underlying deficits, reductions in unrestricted cash and working capital, and deteriorating asset renewal rates.

This is made more concerning by the fact that State-based reporting does not pick up on these factors. Several decisions in the way the state monitors financial sustainability obfuscate underlying problems.

Accounting surplus rather than underlying surplus is frequently used. Total cash is also referred to rather than unrestricted cash. In both cases these are significantly distorted by money that is ringfenced from operational uses, such as developer contributions.

Over time the State has also included upgrade expenditure when calculating asset renewal gaps, rather than purely maintenance expenditure. This provided a significant boost to the number of councils that appear to be meeting targets but is inaccurate.

A further challenge to analysis is the timing of release of Financial Assistance Grants, which can make up a sizable portion of the underlying revenue for many councils. A portion of Financial Assistance Grants has often been brought forward into the preceding financial year, but in recent years particularly the % of total grants brought forward has varied. This can lead to councils effectively receiving much more than a normal yearly allocation in one year, and much less in the following year.

In 2021-22 normalising these payments would bring the number of councils reporting deficits from 35 up to 43, and in 2022-23 from 37 up to 46.

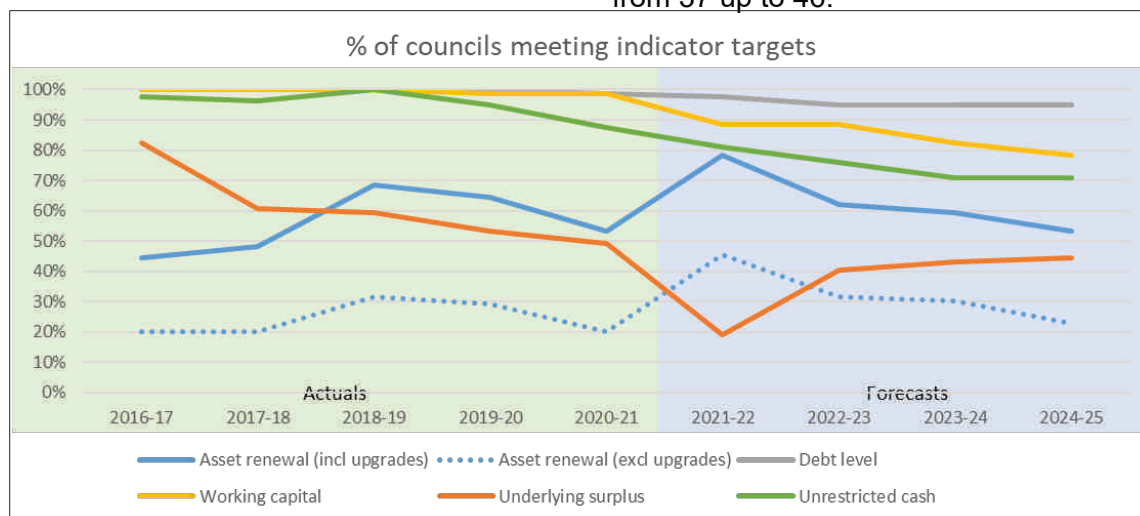
A key part of the deterioration in local government sustainability has been the introduction of a rate cap in Victoria. Victoria's rate cap is set based on Department of Treasury and Finance forecasts for CPI growth. There are two main problems with this.

Firstly, CPI is not an accurate indicator of the costs facing local government. The MAV has developed a cost indicator that better reflects what councils are paying year to year to maintain service standards which is detailed elsewhere in this paper.

Secondly, there is no adjustment mechanism to account for when forecasts do not match reality. Instead, the rate cap is merely set based on the new forecast without consideration of previous gaps. Incorporating a mechanism to "catch up" via future rate caps would go some way to addressing the compounding revenue challenges councils face.

The rate cap is not the sole challenge for councils, however. Even absent of a rate cap, councils are constrained by the capacity of their community to pay additional costs. In many cases, communities with the least ability to pay are also the most expensive to service due to factors such as socio-economic disadvantage and small and disparate populations.

Ultimately this needs to be addressed through redistributions from other levels of government, including restoring the quantum of Financial Assistance Grants to previous levels and expanding and improving upon other sources of grants.



Source: MAV and LG Finance Professionals - Sustainability Gap Report, data source: council budgets and financial statements

International Comparison

Using OECD data, we can examine how Australian local government compares to similar countries across some key indicators.

The comparison countries are those which are classified as high-income and have federal systems of government, rather than unitary ones. That is, subnational governments have a right to exist and are recognised in the constitution as having powers the national government can't take away unilaterally.

Interestingly, without constitutional recognition of local government councils effectively operate within a unitary system

within their state. Local governments in Victoria are established by state legislation and the barriers to the Victorian Government making unilateral decisions are political ones rather than legal ones.

Australian local government is smaller than comparable counterparts.

It receives the smallest proportion of its income through transfers from other levels of government. It is the most reliant on non-tax non-grant revenue, which in Victoria consists largely of user fees and fines.

This reliance has significant equity implications, as the costs of providing services fall more proportionally on those using that service.

While having a fairly low capital expenditure compared to other countries, this is due to the smaller overall budgets of Australian

councils. When looked at as a portion of total local government expenditure, Australia spends the most by far - double that of the country ranking second.

This points again to councils in Australia being a level of government that is laden with infrastructure. This affects many facets of their overall financial sustainability as there are large baked in maintenance and renewal costs.

Comparison of key local government indicators across high-income federated OECD countries 2019/20 data

	Australia		Austria	Belgium	Germany	Spain	Switzerland	Canada
Per capita LG expenditure (\$USD)	\$ 1,302.60	7th	\$ 4,980.30	\$ 3,871.50	\$ 4,794.00	\$ 2,445.50	\$ 5,359.00	\$ 4,472.90
LG expenditure as % of GDP	2.5%	7th	8.9%	7.4%	8.8%	6.4%	7.5%	9.3%
LG expenditure as % of total government expenditure	5.9%	7th	15.7%	12.4%	17.4%	12.2%	19.8%	17.3%
Grant and subsidy revenue per capita	\$ 406.80	7th	\$ 3,137.10	\$ 2,063.80	\$ 2,374.50	\$ 1,049.50	\$ 906.10	\$ 2,178.30
as % of LG revenue	31%	6th	63%	53%	50%	43%	17%	49%
Per capita tax revenue (\$USD)	\$ 517.90	7th	\$ 726.20	\$ 1,162.90	\$ 1,662.80	\$ 1,241.10	\$ 3,173.80	\$ 1,714.70
as % of LG revenue	39.8%	3rd	14.6%	30.0%	34.7%	50.8%	59.2%	38.3%
% of revenue not grants or tax	29%	1st	22%	17%	16%	6%	24%	13%
Share of national tax revenue	3.50%	7th	4.90%	7.50%	13.20%	14.20%	21.30%	11.80%
Per capita LG CapEx (\$USD)	\$ 467.10	5th	\$ 563.00	\$ 433.40	\$ 656.10	\$ 255.30	\$ 851.90	\$ 759.10
LG CapEx as % of LG expenditure	36%	1st	11%	11%	14%	10%	16%	17%
Share of national CapEx	19.9%	6th	24.4%	22.8%	29.6%	14.3%	23.0%	34.4%

Source: MAV, data source: OECD Subnational Government Finance



BENEFITS OF FINANCIALLY SUSTAINABLE COUNCILS



BRIMBANK
METROPOLITAN



Investing in community capacity

Through targeted investment councils can improve engagement and resilience within their communities

Since 2009, the Brimbank Community Capacity Building Program has aimed to enhance governance and leadership skills among community members who work with and on behalf of their community. This long-running initiative includes three distinct streams designed to foster community resilience, participation, and empowerment.

The Brimbank Community Governance Training Program offers one-off training sessions to community groups within Brimbank, focusing on the governance and management of their organisations. The Brimbank Community Leadership Program provides a series of training to individuals, enhancing their leadership skills and capacity. Additionally, the Brimbank Leadership Alumni network connects participants who have completed the leadership program and attended multiple governance training sessions, allowing them to stay engaged and contribute to council activities.

To date, the program has trained over 600 community members. An evaluation conducted in 2023 revealed that the program effectively achieves its goals. Participants reported that the program improves community resilience by enhancing knowledge and connections, fostering increased community participation, and positively influencing engagement with council tools and initiatives. The findings indicated that the program has significantly improved participants' skills, knowledge, and self-confidence.

The impact of the program on the Brimbank community has been overwhelmingly positive, with sustained increases in engagement, skills, resilience, and empowerment among participants. By investing in the capacity of its community members, Brimbank Council has successfully fostered a more resilient, engaged, and capable community, demonstrating the long-term benefits of targeted capacity-building initiatives.

Investing in communities

Councils are the most connected level of government to their communities. They are constantly receiving local feedback, whether at the front desk, through engagement with elected representatives, at council meetings, or in formal consultation processes.

This means they are able to identify and respond to the needs of individual communities within their municipal area much faster than state or federal governments can hope to.

This can take the form of responding to acute or widespread disadvantage, or in addressing significant divides within the municipality.

Ideally these issues can be pre-empted and not reach a boiling point. Multicultural festivals and events held by councils are not just about bringing diverse communities together, but also and bridging gaps in understanding and building socially cohesive society.

Providers of last resort

Many communities rely on services that are simply not commercially viable for private operators to offer, or at least not at a price communities can afford.

In some cases, legislation requires councils to act as a potential alternative to commercial operators.

The Victorian building regulatory system was privatised in the early 1990s. Statewide over 90% of building permits are now issued by private building certifiers. In parts of rural Victoria however council is the only or one of very few issuers of building permits. Without providing this function residents would be unable to undertake all but the most minor of building works.

Where they have the capacity to do so, some councils step into this gap and offer the service directly, or support providers to deliver it.

A number of councils operate childcare to ensure their community has access to a high quality and affordable service that the market had otherwise failed to deliver.

Unless they have a solid baseline of financial stability councils don't have the capacity to take on these roles.

Stability

Having a strong financial base means councils are able to step in and help absorb the impacts of significant shocks for their community.

During the worst periods of the COVID-19 pandemic every Victorian council dedicated extensive resources to supporting their communities.

Support to businesses included direct support packages and rate relief, fast-tracked applications for approvals, liaison and mentoring programs, professional development opportunities, facilitating collaboration and networking, and rent relief for tenants of council facilities.

For communities councils continued vital services such as maternal and child health appointments, provided enhanced assistance for vulnerable people including establishing dedicated relief packages and expanding the eligibility criteria for in-home support, providing public health information, establishing local community networks, relaxing enforcement where public safety was not compromised, and offering rate waivers and deferrals.

This approach can be seen as similar to the role taken on by Victoria in absorbing the immediate impact of the pandemic to keep communities and economies going.

Compared to the Victorian Government however, councils have a very limited ability to increase their revenue streams. This means they had to take a more conservative

approach during the pandemic and have fewer options available to them to pursue budget repair.

"The first and most important step was to let the Victorian Government's balance sheet absorb the blow of the pandemic – protecting jobs, businesses, families and the community" ²

- Victorian Treasurer Tim Pallas MP

In addition to one-in-a-hundred-year pandemics the role of councils in supporting their communities through shock and disruption can be seen each year.

The governance structures, local networks, and strategic partnerships councils have are critical to activating relief and recovery measures as quickly as possible following a disaster.

After the initial response from emergency services, councils undertake building and environmental health risk assessments, establish relief and recovery centres, and provide information and leadership to impacted communities.

Efficiency and cooperation

State and federal governments benefit from councils as willing and able partners with equipment and expertise deployed across the country.

Other levels of government will often arrange for council to undertake functions they would otherwise do.

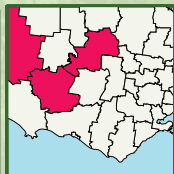
Victorian councils are currently funded to perform inspections on tobacco retailers to ensure they are not supplying to minors.

Many Victorian councils also perform maintenance on state road assets such as vegetation management. This has been more cost effective than the state having to deploy its own resources across the entire network.

Unfortunately, funding agreements have become so out of date that they no longer reflect the cost to council of undertaking this maintenance. As a result councils are considering whether they can justify continuing to do this at the expense of other priorities. Several councils have already ceased this maintenance.

SOUTHERN GRAMPIANS,
NORTHERN GRAMPIANS,
QUEENSCLIFFE & WEST WIMMERA

SMALL AND LARGE SHIRES



Collaborative ERP Renewal and Cloud Records Project

State funding allows councils to achieve long-term benefits through investing in systems

Northern Grampians, Southern Grampians, and Queenscliffe councils have recently completed the initial implementation of two collaborative projects funded by the Rural Councils Transformation Program: Enterprise Resource Planning (ERP) renewal and Cloud Records (With West Wimmera also joining the second project). These projects are designed to enhance digital infrastructure and streamline business processes across the participating councils. The ERP renewal project saw three councils jointly procure and implement a suite of "Best of Breed" software to replace their outdated ERP systems. This collaboration enabled cost savings, standardised business processes, and laid the foundation for potential service sharing and joint recruitment in the future.

Simultaneously, four councils worked together on the Cloud Records Project, transitioning from old records management systems to MS365 SharePoint. Staff now use MS Teams as their primary workspace, with AvePoint managing records compliance in the background. This new approach ensures high compliance with minimal user intervention by implementing in-place records management. These projects highlight how State Government funding supports small rural councils, allowing them to achieve outcomes that would be difficult independently.

As the councils move into Phase 2, they are focused on building training resources and developing standardised policies and procedures to maximise the efficient use of new systems. This ongoing collaboration fosters continuous improvement, with staff from the participating councils supporting each other and sharing best practices. The ERP renewal and Cloud Records projects exemplify the significant benefits of collaborative, state-funded initiatives in modernising digital infrastructure and setting the stage for future cooperation and efficiency in small rural councils.

Delivering on shared priorities

In addition to assisting State and Federal operations, the functions of local government are critical to delivering on the priorities of other levels of government.

Victorian councils manage 87 per cent of Victoria's road network, representing not only the roads many travel on in and around their communities but the first and last mile for longer trips such as interstate and intermodal freight.

Early years education in Victoria couldn't exist without council facilities, often leased to service providers at peppercorn rates.

Councils invest heavily into climate change initiatives, both mitigation and adaptation. They ensure their own buildings and services are efficient as well as supporting their communities to do the same.

Councils are taking on an increasing role in funding library services that support lifelong learning, digital literacy, and skill development.

Councils also engage heavily with individual communities to promote social cohesion across Victoria.

Continuous improvement

Continuous improvement is vital for councils, and any organisation, to maintain a high level of performance.

Unfortunately when budgets are under pressure it can be extremely difficult for councils to dedicate resources to continuous improvement over more immediate community-facing priorities such as service delivery and infrastructure management.

Many aspects of continuous improvement have a positive feedback loop, improving the sustainability of councils. Thus the councils that would benefit the most from it are often the ones least able to undertake it without support from other levels of government.

Where councils can undertake continuous improvement practices it can take many different forms.

Many Victorian councils have leant into improving digital systems. This has been significantly aided by programs such as the Victorian Government's Rural Council Transformation Program.

Other areas include professional development, collaboration with other councils and external partners, improved risk management, and forward service planning.

Organised sport

Community participation in sport is heavily dependent on councils. Over half the tennis courts, football grounds, soccer pitches, and swimming pools in Victoria are owned by council.

Councils also provide support to local sporting groups through operating grants and individuals and families to help make participation more affordable for the whole community.

Sport clubs are often the bedrock of communities, particularly in rural areas. A 2015 study ³ by La Trobe University examined the benefits of community clubs and identified a social return on investment of \$4.40 for each \$1 spent on running them.

“Councils collectively invest millions of dollars into football annually in the development and maintenance of football facilities” ⁴
- Then AFL Victoria CEO Steven Reaper, AFL Victoria Local Government Forum

Sports heavily dependent on local government-owned facilities in Victoria		
	# owned by local government *	% of total *
Soccer pitches	539	71%
Basketball courts	316	62%
Skate parks	93	58%
Swimming pools	301	58%
Australian rules football grounds	727	58%
BMX tracks	70	57%
Tennis courts	2908	50%
Netball courts	823	48%
Hockey pitches	49	42%

Source: MAV, data source: Sport and Recreation Victoria - Facilities List. (Note, due to gaps in facility ownership in the source data the MAV considers these figures conservative)

Local clubs support local businesses and create direct employment opportunities in the community.

Other benefits include improved social connectedness, mental and physical health, building networks to improve resilience and access to employment opportunities, and gaining skills that can be used in people’s personal and professional life.



Subsidised access to community facilities

Council-provided subsidies promote access to facilities for those who need it most

In February 2024, the City of Greater Geelong opened the \$65.5 million Northern Aquatic Community Hub (NACH) in the northern suburbs of Norlane and Corio. These areas, identified by the SEIFA index as among the most disadvantaged in Victoria, have greatly benefited from this new facility. The NACH aims to remove financial barriers to participation through various subsidised initiatives, making it accessible to the local community.

Key initiatives include off-peak concession memberships priced at 50% off the full fee, which provide complete access to the facility, including reformer pilates. Additionally, a \$50,000 small grant initiative will be launched in FY25 to offer free access for those unable to afford it, such as one term of swimming lessons. Memberships now also include small group training at no extra cost, and 60 participants per year can take advantage of funded learn-to-swim programs, courtesy of a commercial partner. Ongoing initiatives offer further discounts for concession holders, older adults, families, and corporate members.

These programs are primarily funded by the City of Greater Geelong, with the learn-to-swim program supported by a commercial partner. The council's commitment to subsidising access to the NACH ensures that residents of Norlane and Corio can benefit from the health and wellness opportunities provided by the new aquatic centre, helping to address the area's significant socioeconomic challenges. This approach highlights the role of local government in promoting community well-being and social equity through targeted support and access to essential services.

Open space

In addition to organised sport, council land forms the backbone of our public open space networks.

Within metropolitan Melbourne (encompassing metropolitan and interface councils), councils own 68 per cent of the parks, gardens, and organised recreation facilities by area, amounting to 16,400 hectares.

Across eight municipalities councils own over 90 per cent of this critical public space,

between 80-90 per cent in another nine, and over half in all but six of the 31 councils that make up Melbourne.

The physical and mental health benefits of open space are well documented. In addition to providing a venue for physical activity, natural environments reduce stress, anxiety and depression.

Public open spaces also act as communal gathering spots. They provide a space for organised events such as concerts and festivals, as well as informal gatherings that promote casual interactions among the community.

Environmentally, the open space network promotes biodiversity. Of particular importance are biodiversity corridors which link habitats that would otherwise be isolated and potentially unviable due to urban development.

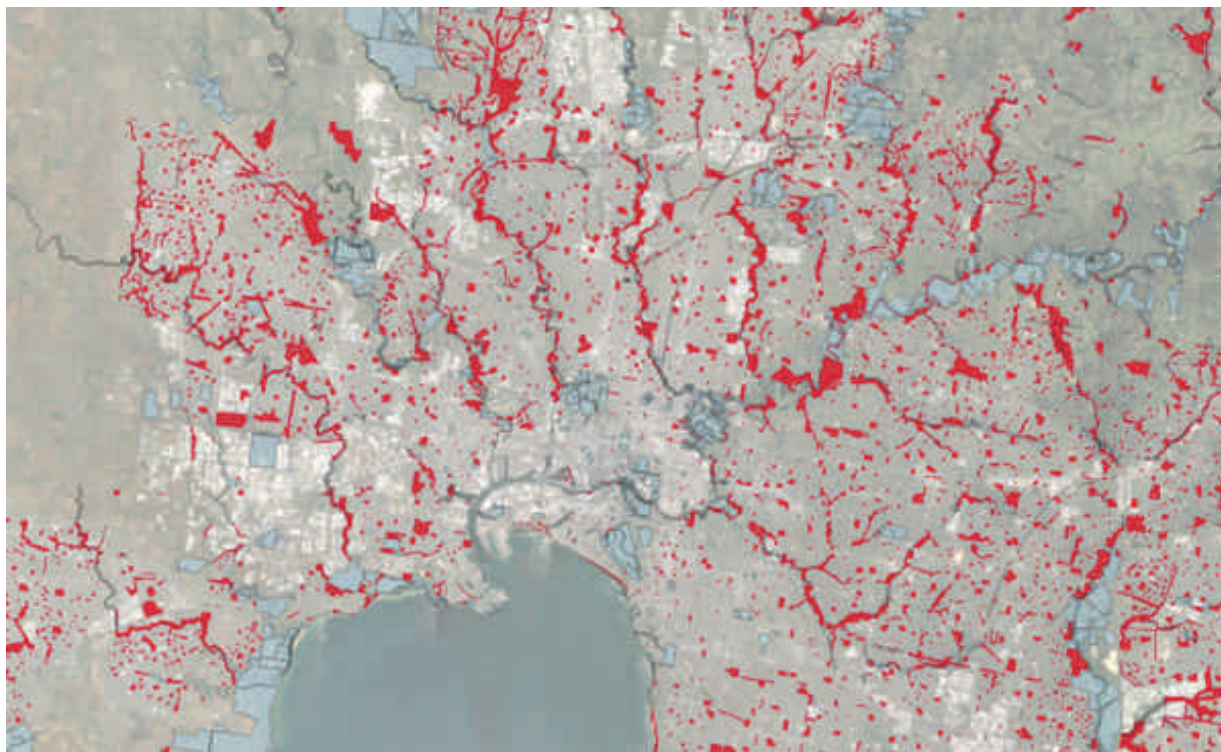
Improving air quality for residents is a significant benefit, particularly in urban environments.

The benefits of open space will also become more pronounced as the impacts of climate change become more severe.

Green spaces counteract the urban heat island effect. They can also be utilised as part of flood mitigation by managing stormwater surges during flood events.

Open space does not generate significant revenue. Even for organised sport, councils will generally charge a low fee for community clubs.

Management of the open space network requires councils that can afford to fund it out of general revenue in recognition of the significant benefits it provides.



Melbourne's open space network. Council owned land highlighted in red and other public open space in blue. Source: MAV, data source: Victorian Planning Authority - Metropolitan Open Space Network

Financial insecurity

By contrast, when councils don't have financial security there are significant impacts to local communities.

Victorian legislation requires councils to ensure their ongoing financial viability. A deteriorating financial position means councils are forced to make difficult decisions about the scope and scale of services they provide to their community.

A study conducted by AEC Group on behalf of the Australian Local Government Association identified specific functions as particularly at risk where finances become a problem ¹:

- Response to climate change
- Provision of recreation and open space activities
- Provision of community events and festivals
- Library and educational services
- Equitable access to services
- Public safety
- Promoting public health
- Additional support for at-risk populations
- Protecting communities from natural disasters
- Road maintenance
- Footpaths and cyclepaths
- Stormwater drainage

There are recent examples of councils having to reassess service delivery due to their financial position.

The Victorian Government's Program for Refugee Immunisation, Monitoring and Education (PRIME) was a program aimed at improving immunisation rates in asylum seeker and refugee communities. In some communities vaccination rates more than tripled under the program.

Despite its success, when the state program ceased participating councils were unable to continue this initiative due to the cost.

In the aged care space, many Victorian councils have announced they will leave the direct provision of in-home services. They will instead move to supporting residents to find and transition to an appropriate alternative service provider.

Changes to federal aged care funding models have increased client choice, but at the expense of the ability of councils to plan services. Many councils felt they were not in a financially strong enough position to take on the risk of uncertainty over funding.

As costs increase faster than revenue more councils will be closely examining their budgets to identify what functions they can no longer justify.



GREATER
DANDENONG
METROPOLITAN

Deteriorating financial sustainability

Councils face increasing costs and significant limitations on their ability to raise revenue

The City of Greater Dandenong (CGD) is one of the most diverse multicultural communities in Australia. CGD is currently confronted with substantial medium to long-term financial sustainability challenges. These arise from several factors including rate capping policies that don't reflect increased costs, shifting of responsibilities to council, and the level of hardship experienced by the local community.

For 2024/25 the Victorian Government has set a rate cap of 2.75%. By contrast CGD has experienced cost increases over 20% for building construction, playground materials, tree maintenance services, and other maintenance services. Despite internal staff remuneration being pegged to the rate cap, overall employee costs will rise above this due to the increase in the Superannuation Guarantee.

In addition to this council finds itself taking responsibility to deliver functions that were previously undertaken by other levels of government, or where service agreements have become divorced from the cost of delivery such as council undertaking maintenance works on state road assets.

Even absent of external impositions on revenue and expenditure, CGD carefully considers the ability of its community to bear additional cost burdens. Greater Dandenong has high levels of severe disadvantage, poverty, homelessness, and unemployment. The ability to find additional revenue through either rates or user pays systems is extremely limited. These communities also rely heavily on council services, and any reduction to services would have severe impacts on both an individual and societal level.



FUNDING INFRASTRUCTURE AND SERVICES



LG Cost Index

Since 2016 Victorian councils have been subject to a State imposed cap on growth in rate revenue. This has exacerbated the challenges councils face in funding the services and infrastructure their communities rely on.

It also stands in stark contrast to the revenue growth other levels of government afford themselves. Since 2016 the tax revenue of Victorian councils has risen 23% in total, compared to a 53% rise in tax receipts for the Victorian Government and 59% for the Commonwealth

The rate cap is set based on Department of Treasury and Finance forecast for CPI. CPI is not an accurate reflection of the costs

facing councils, and Treasury projections of CPI even less so.

To address this, the MAV has developed a cost index for Victorian local government based on methodologies in use in other jurisdictions.

Using this we estimate that since the introduction of the rate cap it has reflected just 60% of the cost increases facing councils.

Our cost index adopts a relatively simple approach of three components - wages, infrastructure, and other.

We have experimented with more complex indices involving upwards of 20 different components such as gas and printing costs. We found that any difference in the output did not warrant the increased complexity.

Employee costs contribute 40% to the cost index. We use increases in the Local Government Industry Award, as well as incorporating increases to the Superannuation Guarantee. While each Victorian council has negotiated an EBA with its workforce, the award still represents a good statewide basis and is the comparison point for Better Off Overall Tests in negotiations.

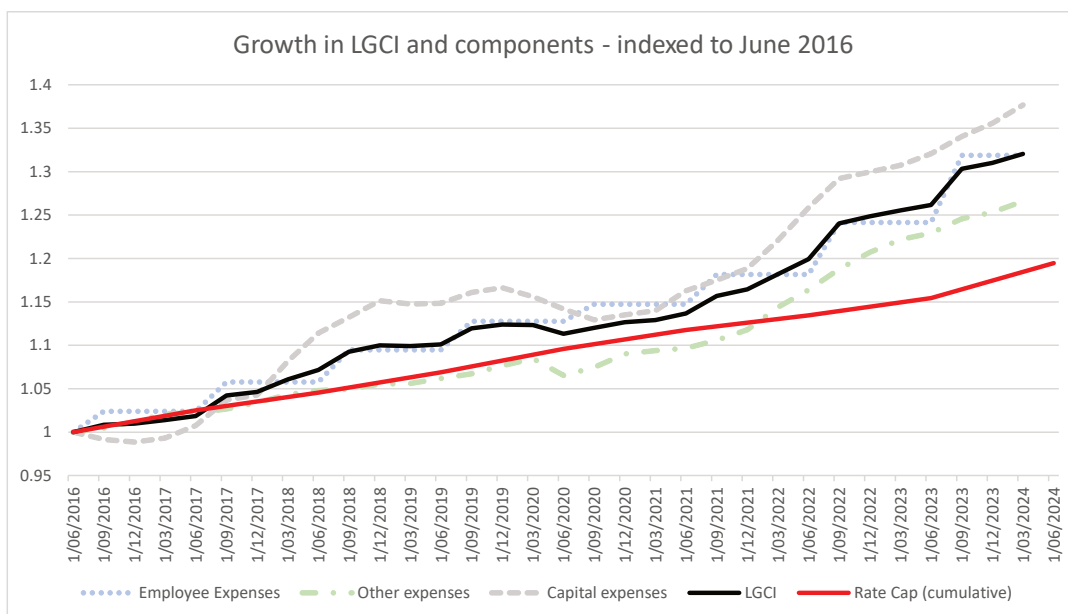
Infrastructure costs are set at 30% and use the Road and Bridge Construction Index for Victoria published by the Australian Bureau of Statistics. The MAV believes this index may be somewhat conservative compared to the costs being experienced on the ground by councils. However, it still stands as the best option for a broadly available and trusted figure.

Finally we use the CPI for Melbourne for the remaining 30% to account for all other costs.

Using a methodology recently adopted by NSW's Independent Pricing and Regulatory Tribunal ⁵ we can also provide estimates for future growth in the index based on RBA economic forecasts.

Currently we predict the LGCI will increase a further 3.12% in 2024-25 and 2.64% in 2025-26.

For context the Victorian Government has set the rate cap for 2024-25 at 2.75%.

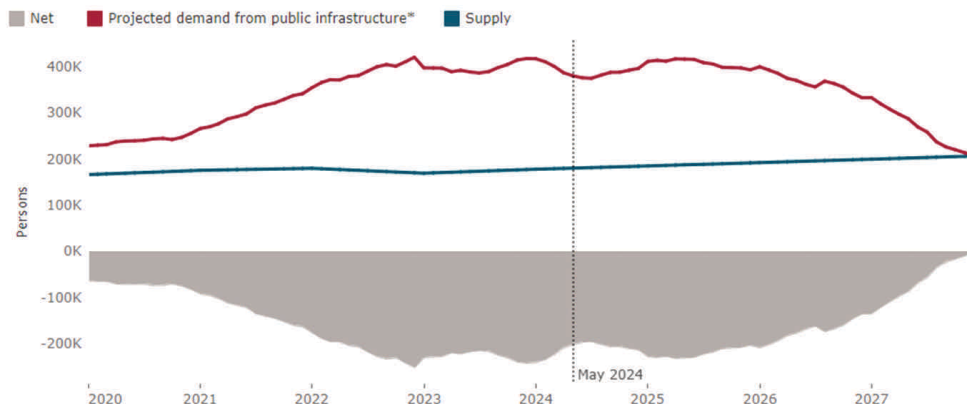


Infrastructure delivery

Infrastructure Australia ⁶ projects that the supply of labour to build infrastructure won't meet demand until the end of 2027. The biggest labour deficits are among labourers and structural and civil engineers.

The data is based only on announced projects. With years of state, territory, and federal budgets between now and then we would expect demand to have increased significantly by the time 2027 arrives and for a substantial deficit to remain, as no significant increase in workforce is projected.

For councils, delivering and managing infrastructure is a large part of their role. These labour shortages affect them significantly. Costs to deliver infrastructure have risen dramatically. In addition to the shortfall driving up prices, many councils have been simply unable to complete projects.



Source: Infrastructure Australia - Public Infrastructure Workforce Supply Dashboard

An MAV survey ⁷ of councils in late 2022 found that over 80% of respondents had seen responses to infrastructure tenders weaken over the preceding 12 months. This is particularly challenging given tied grants are often quite strict in delivery timelines.

In addition to rising costs we are seeing councils capacity to pay for them erode. The application of a new Windfall Gains Tax to council land when re-zoned has impaired the ability of councils to fund capital projects through rationalising their asset base. For large redevelopments such as turning a car park into an apartment tower, the State would take 50% of the uplift value from re-zoning with no guarantee that this would be reinvested into local infrastructure.

Build-to-rent developments avoid subdivision which is the statutory trigger for some infrastructure contributions. Incentives for build-to-rent will have the (we believe) unintended consequence of leaving councils without the means to provide the infrastructure new residents need.



PORT PHILLIP METROPOLITAN

Impact of build-to-rent reforms on development contributions

Well-meaning reforms have unintended consequences for infrastructure provision

The State Government's incentives for build-to-rent developments, such as a 50% reduction in land tax, aim to create new affordable housing complexes with below-market rentals. However, these developments do not involve the subdivision of property, meaning they do not trigger the statutory trigger which allows councils to levy development contributions for open space.

Open space contributions are essential for Port Phillip City Council (PPCC), providing around \$4-5 million annually to improve and expand public open spaces as the population grows. However, five recent build-to-rent developments in the Fishermans Bend area did not require these contributions, resulting in a loss of approximately \$4.9 million in revenue. This shortfall equates to the funding needed for two municipal park upgrades, highlighting the financial impact on PPCC's ability to enhance community infrastructure.

The loss of open space contribution revenue necessitates adjustments to PPCC's financial plan. More funds from general rates will need to be allocated towards open space projects, reducing the budget for other services. Additionally, the PPCC anticipates lower general rates income from build-to-rent properties, estimated to be 10-15% less than traditional developments. This is because these properties are valued based on rental return rather than the Capital Improved Valuation typically applied to subdivided properties.

Overall, while the build-to-rent reforms promote affordable housing, they pose significant challenges for councils which have not been adequately addressed. They hinder local government's ability to provide the necessary infrastructure to support the very communities being established.

GREATER SHEPPARTON REGIONAL CITY



Flood insurance challenges

Cost of insuring against climate change becomes harder and harder on an individual council basis

Since October 2022, Greater Shepparton City Council (GSCC) has faced significant challenges with its flood insurance, as premiums surged by approximately 25% in one year, while coverage for flood damage plummeted from \$20 million to \$2 million. The estimated final cost of insurance claims for 2022 is around \$15 million, excluding business losses for key facilities such as the aquatic centre and performing arts centre. These figures highlight the long-term sustainability issues for civic infrastructure in a flood-prone area.

Climate science indicates that extreme weather and natural disasters will become more intense and unpredictable. In May 2022, the Climate Council of Australia identified the electorate of Nicholls, encompassing Greater Shepparton, as one of five exceptionally vulnerable localities. This underscores the urgent need for enhanced flood resilience and sustainable community planning.

The substantial reduction in flood coverage and rising insurance costs present a severe challenge to GSCC. The council must navigate these financial strains while striving to protect and maintain its infrastructure and supporting the community at large who find their homes and businesses increasingly at risk. These insurance challenges emphasize the broader issue of climate resilience, particularly for communities prone to natural disasters.

These challenges are exacerbated by policy decisions at state and commonwealth levels within the Disaster Recovery Funding Arrangements (DRFA). In Victoria DRFA funding can only be used to restore assets to the state they were in immediately prior to being damaged. At a Commonwealth level, the DRFA takes a narrow view of what constitutes essential public assets and thus what is eligible for funding.

Climate impacts

Victorian councils face an array of challenges due to climate change, significantly impacting their operations and planning.

One of the most obvious challenges is the increasing frequency and severity of extreme weather events, such as bushfires, floods. These events strain emergency response systems, necessitate costly infrastructure repairs, and disrupt community services.

Another major challenge is coastal erosion and rising sea levels, which threaten coastal communities and infrastructure. Councils will need to manage the protection and relocation of assets and potentially even communities.

Climate change also poses challenges for public health, with increased heatwaves leading to higher incidences of heat-related illnesses, particularly among vulnerable populations such as the elderly and those with pre-existing health conditions. Councils will increasingly need to enhance public health services, establish cooling centres, and green their existing public infrastructure.

Furthermore, climate change impacts biodiversity and natural ecosystems, many species are already facing extinction, requiring local governments to develop and implement conservation strategies to protect local flora and fauna. This often involves restoring habitats, managing invasive species, and promoting biodiversity-friendly practices among local communities.

Circular economy

Communities expect local government to play a key role in the circular economy and to maximise the amount of material being reused, recovered, and recycled.

Unfortunately, once something hits the bin is the worst time to start thinking about sustainability. Councils have very limited capacity to influence upstream change. The expectation for councils to solve our waste problems is akin to buying the best bucket possible to sit under a leaking roof.

Federal, and to some extent state, government have far greater levers to address change.

Mandatory product stewardship enacted through state or federal legislation has the ability to require manufacturers and importers of goods to have responsibility for the end-of-lifecycle impacts of products. This creates incentives to design products to be robust, reusable, and recyclable.

It also ensures a price signal is sent to consumers, influencing them to make decisions that avoid waste.

Dealing with the waste-creating decisions of product supply chains comes at a huge cost to councils. In 2022-23, 43 of Victoria's 79 councils spent over 10% of their total budgets on waste management. In addition to the environmental benefits of a circular economy, it would free up funds for other vital services and infrastructure.

Population growth

Official Victorian Government projections suggest Metropolitan Melbourne's population will increase from 2021 to 2051 by over 3 million, to reach 8 million people total. Regional Victoria's population is projected to grow by 646,000 to 2.28 million.

We can see from the local government area projections that are available to 2036 that this growth will not be evenly spread. The government has had a longstanding ambition to accommodate 70% of population growth within established areas rather than in new greenfield development.

Major investment will need to go into new areas to accommodate population growth putting even greater pressure on council finances and infrastructure delivery

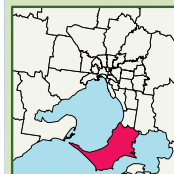
pipelines. Cost won't be the only barrier, space will become scarcer and scarcer.

Service delivery will also need to adjust.

Already services like kerbside collections are more challenging in denser areas.

Areas of western Victoria where population is projected to decline or stagnate will face perhaps even bigger challenges. Small towns with decreasing and aging populations will face questions of their viability. In addition to the cost of servicing small dispersed populations and a declining revenue base, there is a threshold at which the social fabric can no longer renew.

The MAV has released two discussion papers addressing these and other concerns - Shaping Metropolitan Melbourne⁸ and Shaping Regional and Rural Victoria⁹. These are intended as the start of a conversation between councils, communities, and other levels of



MORNINGTON PENINSULA INTERFACE

Managing coastal land in a changing climate

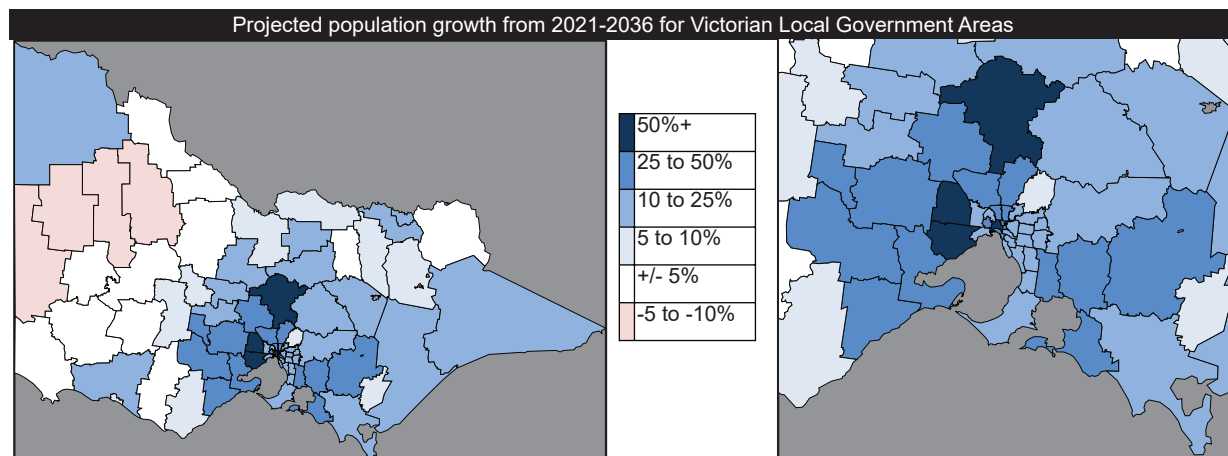
Council bears an increasing and unsustainable cost to maintain assets that benefit many Victorians

Mornington Peninsula is host to 192km of coastline - 10% of Victoria's total. Mornington Peninsula Shire Council is responsible for the maintenance and management of around one third of this.

Each year around 8 million people visit the Peninsula to enjoy its unique coastal environment, villages, and hinterlands. MPSC currently spends more than \$8m per annum maintaining infrastructure on the foreshore and keeping beaches clean, safe, and accessible. These costs are rising with increased patronage and the impacts of climate change.

Extreme weather events and changed conditions due to development are increasing the severity and frequency of erosion events and landslips. Council has had to close one historic path for safety reasons, with an options report costing \$85,000 and design \$100,000 budgeted for the start of design work. Early estimates are that the cost of works could be up to \$4m.

The scale of these costs are already beyond the capacity of individual communities and councils to fund, and they will only increase. It highlights the need to address climate change impacts at a strategic level. This must include either undertaking or funding councils to undertake proactive work to improve resilience, rather than merely responding to damage after it occurs.



Source: MAV, data source: Department of Transport and Planning - Victoria in Future



Public-Private Partnership for community facilities

Council partners with a service provider to address longstanding infrastructure issues and revitalise community assets.

Moonee Valley City Council (MVCC) has entered into a public-private partnership (PPP) with BlueFit, a leisure facility management company to redevelop Riverside Golf and Sports Centre.

The Riverside Sport and Recreation Precinct Plan was developed by MVCC in consultation with the local community. Principles were developed that the precinct be safe, multi-use and community focused, green and climate resilient, connected and accessible, and functional and high amenity.

The current precinct has significant problems. In addition to wear and tear and capacity, the placing of the golf driving range and the netball and tennis courts mean that they can't be used simultaneously without risk to the public. The new development will address these issues, provide playgrounds and active spaces, improved access and pathways as well as potential hospitality uses.

The PPP is underpinned by a 20-year management contract, allowing council to oversee the operations and ensure that community needs are met. It will see most of the capital investment provided by BlueFit.

PPPs won't be suitable in all circumstances. However, where a community-led vision has been developed, and there are partners able to deliver upon them, a PPP can help council capital budgets go further in delivering on infrastructure needs.

Funding alternatives

With these pressures on finances and the delivery of services and infrastructure, the idea of finding alternative sources of revenue and funding is an attractive one for local government.

Some options can be done largely under a councils own initiative, while others will require approval in some form from the state government.

Not every option will be viable for every council. In a 2022 report for Rural Councils Victoria ¹⁰, SGS Economics and Planning found that while boutique revenue streams could be found, meaningful improvements to council finances need to come from revenue sharing from other levels of government.

Changes to developer contributions through the planning system have numerous benefits. They are hard to avoid and they tie revenue to densification and thus increased demand for infrastructure. Once established they also act by reducing the residual land value - effectively being paid by those

selling land through a reduction in sale value rather than an increased price for those buying new homes. However, like all planning scheme changes, they must ultimately be signed off by the Minister for Planning.

There are benefits rationalising asset inventories. Maintenance costs can be reduced, a one-off injection of funds from the sale achieved, and once developed to a higher yield use the land will contribute more to the local economy and the rate base.

Councils looking at this to fund capital expenditure have been hindered by the imposition of the Victorian Government's windfall gains tax, which would see the State take 50% of the uplift value from any re-zoning.

Other avenues include public private partnerships to deliver infrastructure or developing services commercially to provide either to the public or other councils.

There may also be scope to increase revenue from the use of council services and facilities, however this cost is borne directly by community so should be weighed against the social benefits of subsidised or at-cost offerings.

Sources of revenue for Victorian councils - 2022/23									
	Rates and Charges		Grants		Statutory Fees and Fines		User fees	Development contributions	Other revenue
Metropolitan	63%		14%		6%		9%	4%	4%
Interface	43%		14%		3%		5%	32%	3%
Regional Cities	48%		22%		2%		10%	13%	4%
Large Shire	47%		31%		2%		7%	9%	5%
Small Shire	42%		46%		1%		5%	2%	5%

Source: MAV, data source: VAGO audited financial statements of Victorian councils



WORKFORCE CHALLENGES AND OPPORTUNITIES



Councils as Employers

One of the major contributions councils make to local communities is their role as an employer.

Councils provide stable and high-quality jobs to local residents. In many areas they are one of the largest employers in a community.

Councils have been criticised for being top-heavy with unnecessary layers of management. This is incorrect, councils have a smaller proportion of management in their workforce than the private sector.

When examining the distribution of wage brackets, again comparing to the private sector, councils have fewer people on low wages, fewer people on the highest wages, and more in the middle.

Councils also help address gender equity in the workplace, both through paying women well and in supporting mechanisms. Councils offer flexible work arrangements to ensure that parents can continue contributing in the workplace in a way that fits their circumstances.

In 2010 Surf Coast Shire Council implemented what we understand were globally the first paid leave provisions for workers experiencing family violence. This has since become a legal right for all Australian employees, whether full-time, part-time, or casual.

In many professions local government also helps train up the bulk of the workforce, whether they stay in the public sector or go to private industry.

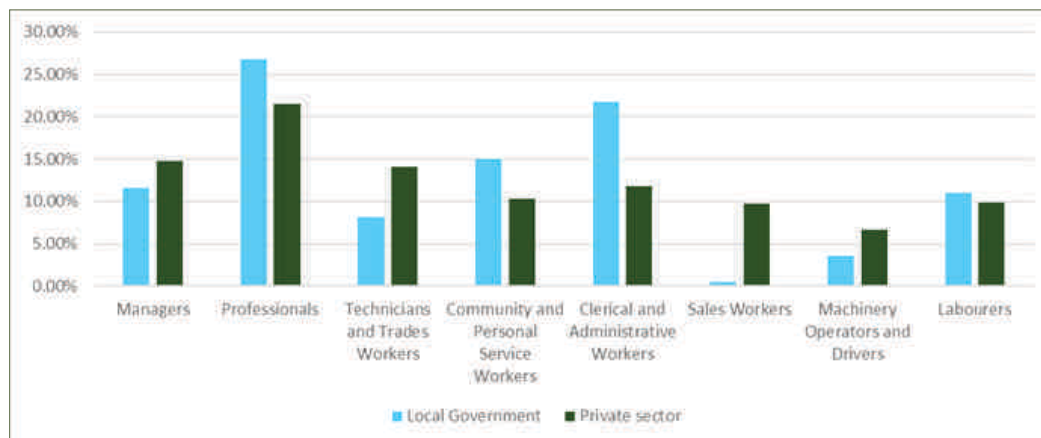
The majority of town planners and building inspectors for example, get their first opportunity in local government.

Local government, through cadetships, apprenticeships, and work placements, can

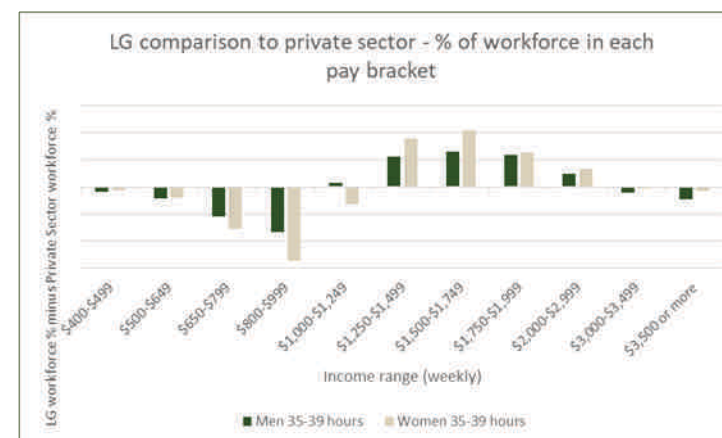
be a great place to develop a career, It can also be a place that helps people get back into the workforce after long-term absence. Local government wages flow into economic activity in local communities.

In examining the rate cap in Victoria, the Centre for Future Work ¹¹ estimated that more than 20,000 indirect jobs are created by local government activity (through downstream consumption and upstream supply chain impacts). This is in addition to the 50,000 people directly employed by councils.

When looking at the impact constrained local government revenue has had (in this case the rate cap), they state this may have cost over 7,000 jobs (direct and indirect) and reduced GDP by up to \$890 million.



Source: MAV, data source: ABS 2021 Census TableBuilder



Skills shortages

Victorian local governments face significant challenges in attracting and retaining workforce, particularly across several key skill areas.

The 2022 Australian Local Government Workforce Skills and Capability Survey¹² found that three quarters of responding Victorian councils said workforce capacity and capability issues impacted project delivery.

Building surveyors, maternal and child health nurses, planners and engineers were cited as the hardest roles for councils to fill. There have also been longstanding challenges to recruit environmental health officers, and councils expect waste management and recycling staff to become a critical shortage in the future.

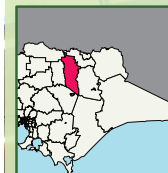
One of the primary issues is the lack of affordable housing. Many rural communities have limited housing options, making it difficult for potential employees to find suitable accommodation. Without affordable housing, even those interested in working in rural settings may be forced to seek employment elsewhere, where housing is more accessible. This is exacerbated by poor access to transport options within an area.

Skills shortages can also become self-perpetuating. Where councils are understaffed each employee will carry a greater workload. This can lead to burnout and the employee leaving for another employer.

Councils expect skills shortages to become worse. Demand for workers will increase due to external factors such as reforms by other levels of government, changing demographics, and climate change. Meeting the workforce demands of the expansion of early years education in particular will be challenging for many councils.

Across some professions, and in rural councils more generally, an aging workforce profile adds additional challenges. As experienced workers reach retirement age we will lose the opportunity to mentor the next generation and retain institutional and professional knowledge.

In some cases the problem is not merely the ability of councils to attract the workforce, but the existence of a sufficient workforce at all. In Victoria demand for building surveyors far exceeds the current workforce across both the public and private sector. In those cases the solutions need considerable involvement from state and federal governments, as well as other partners such as the tertiary education sector.



WANGARATTA
REGIONAL CITY

Challenges of an aging regional workforce

Structural challenges require innovative approaches to recruitment and retention, as well as outsourcing key services

Wangaratta Rural City Council (WRCC) faces significant workforce challenges, particularly in recruiting and retaining skilled personnel for critical service areas such as environmental health officers and arborists. These positions are essential for service delivery, yet attracting qualified individuals is difficult due to the constraints of service delivery budgets.

WRCC's doesn't have the size for career-building programs or scholarships to develop these skills internally. Teams do not exist at a scale large enough to support this, turnover is relatively low, and career progression pathways are limited. As a result, larger councils or private sector employment opportunities can be more attractive employers. Housing shortages further exacerbate recruitment difficulties.

In response WRCC has had to outsource to ensure service delivery can continue without interruption. WRCC has also implemented bespoke recruitment efforts, including referral services, sign-on bonuses, above-band salary offers, and relocation support. Application processes have been tailored to match the technology capabilities likely applicants.

Moreover, Wangaratta's workforce is aging at a materially higher rate than the average Australian workforce, adding further complexity to the recruitment and retention challenges. The Council's proactive measures aim to mitigate these issues, but the combination of regional disadvantages and an aging workforce continues to present significant hurdles.

Through these efforts, Wangaratta Council strives to maintain service quality and continuity while navigating the difficulties inherent in regional workforce management. The situation underscores the need for innovative solutions and support to ensure the sustainability of critical services in rural areas.

YARRA
METROPOLITAN



Early years workforce challenges

Council faces an acute workforce pressure and is able to deploy resources in a targeted and pro-active response

The City of Yarra is facing significant challenges in meeting the growing demand for early childhood education and care. With projections indicating that demand for places will exceed current capacity, and an increasing number of job vacancies across Victoria, the situation is becoming critical.

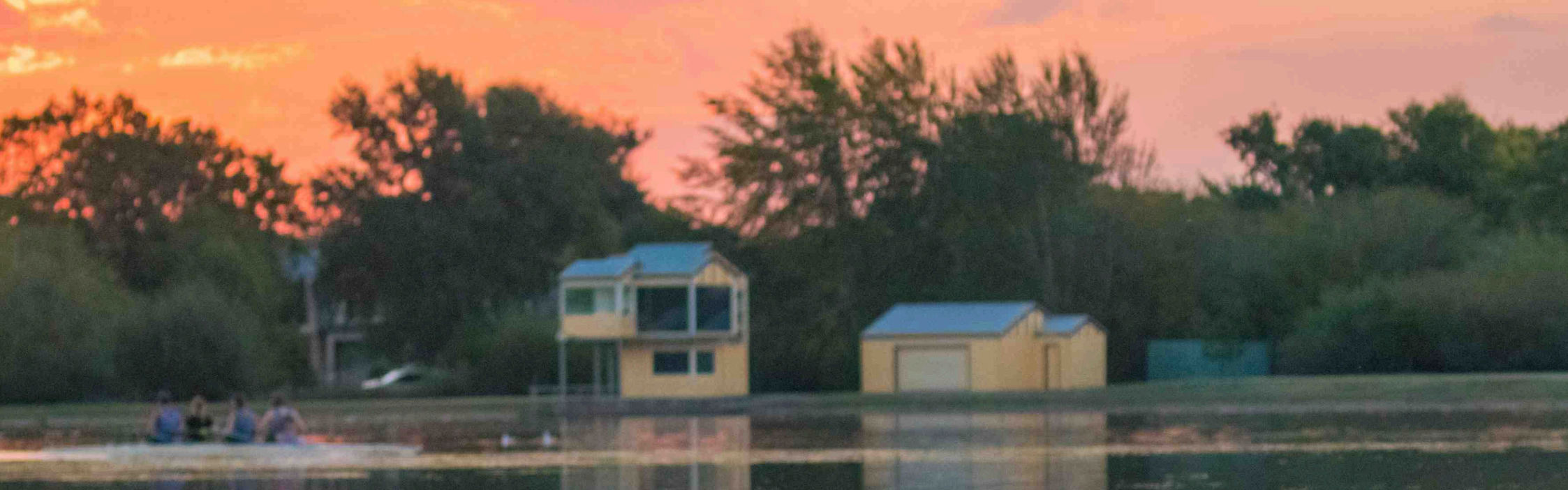
Inner Melbourne, which includes Yarra, experienced notable employment changes in the five years preceding August 2022. There was a 23% reduction in the employment of educators, compared to a 9% reduction nationally. Early childhood teachers saw a 15% reduction, contrary to a 19% national increase. Interestingly, there was a 50% increase in Childcare Centre Managers, against a 15% national reduction. This disparity reflects the unique challenges faced by the area.

Yarra Council has consistently struggled with a vacancy rate of at least 20% in early childhood educator roles over recent years. This shortage, coupled with rising demand for services, has placed immense strain on existing staff and services. The usual attraction and retention strategies have proven insufficient to address these workforce issues.

In response, Yarra Council has developed a detailed action plan aimed at mitigating these workforce challenges. The plan includes measures for attracting, retaining, and developing early childhood educators. By focusing on innovative solutions and comprehensive support systems, the council aims to stabilise the workforce and ensure that quality early childhood education remains accessible to all families within the municipality.

This proactive approach highlights the council's commitment to addressing the workforce challenges in early childhood education, ensuring that the growing demand for services can be met effectively despite the current staffing shortages.





LOCAL GOVERNMENT LEADING THE WAY



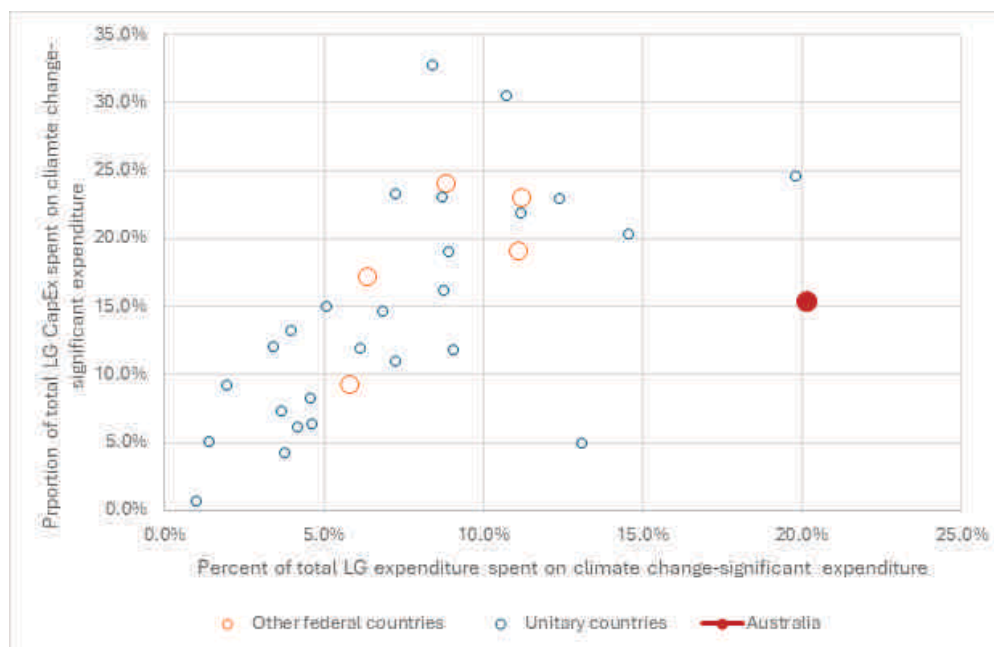
This section seeks to highlight proactive work being undertaken by Victorian councils to address financial sustainability and other challenges.

Councils are not merely sitting back calling for other levels of government to solve their problems. They are actively pursuing innovation and solutions. These case studies document the benefits of councils having the financial room to innovate. In many cases the first mover will be the most expensive and learnings can be applied relatively cheaply across councils and other levels of government.

In addition to specific council examples we can look at broader responses where councils are leaders such as climate change.

Victorian councils have led the way on numerous climate change initiatives from environmentally sustainable design in the planning system to investing in renewable energy.

The OECD has categorised investment and expenditure by subnational governments. By contrast, when councils don't have financial security there are significant impacts to local communities. We can see that Australian councils are world leading in terms of turning their operational expenditure to climate-change significant expenditure.



Source: MAV, data source: OECD Subnational Government Climate Expenditure & Subnational Government Finance and Investment



YARRA
METROPOLITAN

Implementing Victoria's first LG Financial Sustainability Strategy

Council prioritises and delivers a forward-looking strategy for financial sustainability

In December 2023 Yarra City Council (YCC) adopted a Victorian-first Financial Sustainability Strategy (FSS).

The FSS identifies seven strategic levers:

- Sustainable cash reserves & responsible borrowing
- Optimise revenue
- Well planned assets
- Review the service landscape
- Invest in transformation
- Robust financial management
- Prioritise advocacy & partnerships

Since adopting the FSS these levers have already been put into use. A framework of principles for future service planning and review was developed through both broad and targeted community consultation.

The first stage of engagement sought broad feedback from the community both online and in-person to better understand attitudes to YCC's service offering.

After that a 50-person Community Working Group was formed. The CWG was given information from the first stage of engagement, as well as further details on councils' services and finances and examples from outside the municipality of how councils deliver services.

YCC has already and continues to put significant effort and resources into implementing the FSS. This work has been able to take a higher priority than it otherwise might due to strong recommendations from an appointed municipal monitor regarding financial sustainability. For many councils diverting resources away from immediate priorities to take a strategic approach may be extremely difficult to achieve without external funding.

BRIMBANK METROPOLITAN



Addressing disadvantage with locally driven responses

Local, targeted investment to address disadvantage within communities

Brimbank, home to some of Victoria's most socio-economically disadvantaged communities, faces significant challenges, including low digital inclusion, poor mental well-being, and the impacts of COVID-19. The area reports high levels of psychological distress, anxiety, and depression, particularly among women. Additional issues such as alcohol and drug abuse, and widespread loneliness further compound these challenges.

To bridge these gaps, Brimbank City Council (BCC) has implemented several initiatives, particularly through its library services. Libraries in Brimbank have undergone enhancements to support equitable access to resources and technology. Additional staff training ensures that library personnel are equipped to assist residents in overcoming digital barriers, providing a crucial lifeline to those with limited online access. These measures help improve digital literacy and facilitate better access to information and services.

Moreover, Brimbank has partnered with the Western Bulldogs football club to deliver the "Sons and Daughters of the West" program, a 10-week mental health initiative. This program is designed to improve mental well-being among residents by offering support and resources to address psychological distress. The program includes activities that foster community connection, reduce loneliness, and provide strategies to manage anxiety and depression.

These efforts illustrate Brimbank's commitment to addressing socio-economic disadvantages and promoting mental health and well-being. By leveraging community resources and partnerships, the council aims to create a more inclusive and supportive environment for all residents, helping to mitigate the long-term impacts of socio-economic disparities and improve overall quality of life.

CASEY, BASS COAST, AND CARDINIA INTERFACE AND LARGE SHIRE



Shared environmental health services

Through a shared service model councils can ease workforce challenges and improve the consistency and efficiency of service delivery

In 2021, the City of Casey, Bass Coast Shire, and Cardinia Shire councils collaborated on a shared service arrangement for Environmental Health Services through a competitive procurement process. A single contractor was selected, and benefits have included enhanced service quality, consistency, and cost reductions across the three local government areas. This initiative is designed to welcome other councils, allowing the benefits to be realised on a broader scale.

Environmental Health functions required to be provided by councils include the administration and inspection of food premises and the investigation of nuisance complaints. These services are essential for ensuring public health and safety, with businesses and residents being the primary beneficiaries.

Centralising contract governance has created economies of scale for procuring sub-contractors (e.g., laboratory services) and consumables (e.g., food sampling equipment).

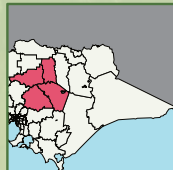
The arrangement also ensures access to a stable, reliable, and skilled Environmental Health workforce, addressing the challenges of workforce shortages and external pressures such as climate change and service growth. A 2023 Victorian Auditor General's Office audit (Regulating Food Safety) highlighted workforce challenges and that councils were finding it difficult to meet legislated responsibilities. The City of Casey was positively showcased in the report for its initiatives to address food safety risks, reflecting the commitment of both the council and the contractor to meet core legislative requirements.

The partnership fosters collaboration and consistency in service provision, ensuring standards are uniformly high across the participating councils.



LOCAL GOVERNMENT LEADING THE WAY

BENALLA, MANSFIELD,
MURRINDINDI & STRATHBOGIE
SMALL SHIRES



Digital transformation across rural shires

Working together, and supported by flexible grant programs, rural councils utilise their diverse areas of expertise for a shared benefit

In a groundbreaking initiative, Benalla, Mansfield, Murrindindi, and Strathbogieshires embarked on a digital transformation project aimed at improving operational efficiencies and service delivery through a collaborative model. By leveraging shared platforms and architecture, these four councils capitalize on their collective strengths, reducing administrative overheads and fostering a cooperative environment that promotes efficiencies and excellence. This \$4.1 million project is supported by grants from LGV's Rural Council Transformation Program and the Department of Treasury and Finance Business Acceleration Fund as well as funding contributions from the councils.

The collaboration model is founded on a strategic partnership where each council takes a lead role in its area of expertise. This approach not only enhances efficiency but also uplifts the overall performance of the group. The use of shared platforms and architecture streamlines processes and facilitates seamless communication across the organizations. This common infrastructure reduces redundancy and allows for the consolidation of resources, significantly cutting down on project administration costs. The integration of similar platforms paves the way for shared services, further enhancing operational efficiency and cost-effectiveness.

The benefits realized by this project include reduced costs to operate, improved efficiency and service delivery, and a scalable system that can adapt to future demands.

This \$4.1 million project is supported by grants from LGV's Rural Council Transformation Program and the Department of Treasury and Finance Business Acceleration Fund as well as funding contributions from the councils.



SOUTH GIPPSLAND, BAW BAW,
BASS COAST & CARDINIA
INTERFACE AND LARGE SHIRE

Establishing a multi-council not-for-profit library organisation

Councils jointly develop a forward-looking response to changing legislative requirements

MyLi - My Community Library delivers comprehensive library services across Baw Baw Shire, Bass Coast Shire, Cardinia Shire, and South Gippsland Shire. As the first library service in Victoria to become a not-for-profit organization following changes to Victorian legislation, MyLi represents a pioneering model for library services. South Gippsland, Bass Coast, and Baw Baw Shire, formerly part of the West Gippsland Library Corporation, were the founding members of MyLi, and Cardinia has since joined the service.

MyLi operates sixteen traditional libraries, three click-and-collect locations, and services a further 21 locations through a mobile library. Three of the fixed locations also provide 24/7 access for registered users.

MyLi remains connected to the needs of local government through board representation from each of its member councils. This has helped see a commitment to operating within the revenue constraints local governments face, as the primary funders of the service. The service also gives regular strategic briefings to councillor groups.

The service is also delivering investment in collections well above the state average, the opportunity to leverage funding through scale, and growth in membership. It also promotes broader co-operation and relationships between the participating councils.

This innovative approach to library services demonstrates the benefits of collaboration and shared services in enhancing community resources and adapting to evolving needs.



BRIMBANK METROPOLITAN



Addressing barriers to unemployment

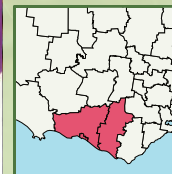
Through its understanding of local context local government delivers tailored interventions to address disadvantage

Brimbank faces numerous employment challenges, including cultural barriers, gender disparity in unemployment, high youth unemployment, limited access to transport, and a reliance on low-skilled and low-paid jobs, which perpetuates intergenerational inequity. To address these issues, Brimbank City Council (BCC) collaborates with community organizations and government agencies to provide tailored support aimed at breaking down these barriers and promoting economic diversification.

One of the key strategies includes offering language and digital proficiency programs to improve employability among residents facing language barriers. BCC also supports various skills development programs to equip individuals with the necessary skills to transition into higher-skilled and better-paid employment opportunities. These programs are crucial in fostering economic resilience and reducing dependency on low-wage jobs.

For youth, BCC provides empowerment activities such as micro-credential courses and mentorship programs. These initiatives are designed to enhance the skills and confidence of young people, making them more competitive in the job market. By focusing on youth empowerment, the council aims to address the high rates of youth unemployment and ensure that young people have access to better employment opportunities.

BCC's comprehensive approach to addressing employment barriers reflects its commitment to fostering a more inclusive and equitable local economy. Through collaboration and targeted support, the council is working to create a brighter economic future for all its residents.



CORANGAMITE, MOYNE & WARRNAMBOOL LARGE SHIRES AND REGIONAL CITY

Joint venture to improve Enterprise Resource Planning

Supported by the Rural Councils Transformation Program, councils implemented a major overhaul of their ERP systems

In recognition of the changing environment of technology and the need to provide their communities with a sustainable and high quality service, Corangamite, Moyne, and Warrnambool councils initiated a transformative project for their business support systems.

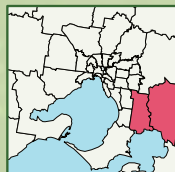
An unincorporated joint venture, named South West Councils Information Communication Technology Alliance (SWCICTA) to address this and other digital transformation priorities. Warrnambool City Council, the largest of the three councils, would serve as the administering body. The ERP project, named Coastal Connect, was one of the first initiatives undertaken. Coastal Connect would uplift the entire ERP system to a Software as a Service environment using Technology One software.

Coastal Connect recognises the significant benefits for the three councils and their communities in having shared systems with common processes to support improved corporate and customer support services. The specific expected business outcomes include:

- Flexible services that meet customer demands
- Making the right investment decisions
- Cheaper cost of doing business
- Higher levels of engagement
- Potential to increase partners or services

The project has been funded under the Rural Councils Transformation Program with a grant of \$4.5 million from the Victorian Government. It is expected that overtime additional partners would join in an expanded shared service offering.

CASEY & CARDINIA INTERFACE



Collaborative procurement for immunisation services

Joint procurement leverages economies of scale and reduces administrative burden

In 2022 Casey and Cardinia Councils undertook a Collaborative Procurement to source Immunisation Services from a common provider. In January 2023, A single contractor was awarded the contract for the provision of Immunisation Shared Services across the two municipalities.

The Public Health and Wellbeing Act 2008 places an obligation on all councils in Victoria to "seek to protect, improve and promote public health and wellbeing by - coordinating and providing immunisation services to children living or being educated within the municipal district". The types of immunisation services provided include:

- Public Immunisation Sessions, to primarily 0-4 year olds
- Secondary School Immunisation Sessions
- Municipal Flu Vax Programs
- The provision of Immunisation Assessment and Catch-up programs

In its first year of delivery, there have been several benefits of this model of service delivery. Combining IT systems has meant that only one council has needed to dedicate resources to interfacing with the Victorian Government's Central Immunisation Records Victoria System.

Collectively the two councils are home to over 7.5 per cent of Victoria's population, with a high proportion of young families. This collaboration offers significant economies of scale through purchasing power, ability to run mass vaccination catch-ups, and avoiding duplicated administration effort.

The model has also been designed to allow other councils to join at a later date to further build on these advantages.





ROLE OF THE AUSTRALIAN GOVERNMENT



The Australian Government has considerable levers which it could use to immediately improve the financial sustainability of local government.

Our recommendations for the Committee are as follows:

1. Increase the quantum of Financial Assistance Grants to 1% of Commonwealth tax revenue

Relative to commonwealth tax receipts, Financial Assistance Grants are at their lowest ever level.

The Australian Local Government Association estimates ¹ that restoring Financial Assistance Grants to 1% of tax receipts would support an additional 22,814 FTE of direct and indirect jobs, and increase Gross Regional Product by 1.4 times the investment required.

In addition to immediately addressing many of the underlying financial challenges for councils, this would better recognise Financial Assistance Grants as a revenue sharing arrangement and part of Vertical Fiscal Imbalance and Horizontal Fiscal Equalisation.

2. Make grants more productive by:

- Reducing administrative burden
- Easing co-contribution requirements
- Allowing for more flexible timelines
- Expanding eligible projects beyond just shovel-ready infrastructure
- Reinstating, restoring, or reinvigorating funding streams like the Local Roads and Community Infrastructure Fund.

In addition to increasing the quantum of Financial Assistance Grants, we believe other grant streams could be made more productive.

One of the strengths of Financial Assistance Grants is their untied and non-competitive nature.

Councils don't have to spend time applying or acquitting Financial Assistance Grants. They simply apply the money received to respond to local priorities.

Particularly for smaller councils and for smaller grant streams the administrative burden in applying for and managing funding represents a meaningful proportion of the value of funds received.

Co-contribution requirements can also act as a barrier to many councils participating in grant streams. Perversely, they can also divert funds away from where they are most needed. A council may feel compelled to apply for a grant stream to maximise funding available, even if this means the co-contribution requirement would draw money away from a more necessary, entirely self-funded, initiative.

Possible solutions would be to vary co-contribution requirements based on the revenue base of a participating councils, or to allow co-contributions to be delivered through in-kind support. Ultimately, an assessment should be made for each grant program on whether the perceived benefits of a co-contribution requirement outweigh the barriers they place on participation.

Too often grant programs focus on projects which are shovel-ready with the goal of having a ribbon-cutting ceremony within political timeframes. This can undermine effective asset and service planning.

For many councils, particularly in rural areas, they don't have the capacity to develop business cases, effective cost benefit analyses or long-term plans. Providing funding for these could prove an efficiency multiplier. Future spending would be better tied to current and future needs and ensure the most efficient delivery and operation.

Finally, there are funding streams councils have found incredibly effective that have either been wound down or abandoned, or could use reinvigoration.

The Local Roads and Community Infrastructure Program (LRCI) is seen as an extremely valuable program. Programs like this and Roads to Recovery which offer reasonable flexibility in the projects that can be delivered ensure funding goes towards real local priorities.

The restriction of later phases of the LRCI program to rural, regional, and outer-metropolitan councils was disappointing and does not reflect the challenges all councils face in keeping pace with the demand for infrastructure.

These type of multi-year programs should also be indexed both to population and delivery costs. Infrastructure costs have risen significantly faster than inflation and this risks these programs becoming less and less effective over time.

3. Partner with local government, particularly to deliver technology transformation and climate change adaptation and mitigation

All Australians would greatly benefit from increased partnership between local governments and the Commonwealth.

Climate change is a problem that requires a multi-scale response from the national (and international), down to the local.

Similarly, technology transformation can deliver significant benefits for communities through the services they receive from government.

We echo calls from the Australian Local Government Association for the Commonwealth to be more ambitious and confident in directly funding local government.

4. Address critical skill shortages through tertiary education and skilled migration pathways

Through its role in tertiary education and migration the Commonwealth has some of the levers necessary to address the acute skills crises facing local government.

Councils simply can not find enough workers to deliver critical roles such as town planning, building regulation, maternal and child health nursing, and environmental health regulation.

These professions need to be prioritised through migration and the Commonwealth needs to partner with local and state

governments and the tertiary education sector to attract people into these professions.

5. Incorporate principles of betterment into the Disaster Recovery Funding Arrangements at a national level

In Victoria councils are unable to use funding from the DRFA to improve resilience when replacing infrastructure destroyed in a disaster.

Councils are required to return the infrastructure to the state it was previously in. This seems farcical, as the state it was previously in has just been proven incapable of withstanding a major disaster.

Despite repeated advocacy the Victorian Government has refused to adopt principles of betterment into the Victorian application of DRFA funding. Thus we call on the Commonwealth to implement these principles nationally and compulsorily. Councils should be encouraged, not prohibited, from building back better after a disaster.

6. Ambitiously pursue product stewardship to incentivise reducing waste and ensure the costs of waste are borne by those who create it

Councils are frequently left to deal with the costs of waste while being largely unable to influence waste-creating behaviours.

By the time materials find their way to a kerbside bin, or are dumped in a public place, the options to improve recoverability and reduce waste are very limited.

By far the most effective waste interventions are those that happen up the supply chain and affect production and consumption decisions.

Product stewardship, such as container deposit schemes, can be extremely effective at achieving this. A well implemented product stewardship scheme places the responsibility for whole-of-lifecycle impacts of a product onto its producer. This encourages them to address waste through design, as well as ensures waste impacts are included in price signals to consumers.

MAROONDAH METROPOLITAN



Eligibility for JobKeeper

Failing to consult with councils makes for arbitrary and unfair differences in program implementation

During the COVID-19 pandemic, the Federal Government introduced the JobKeeper scheme to support organisations in retaining staff during forced closures. However, councils that managed their own leisure facilities, like Maroondah City Council (MCC), were deemed ineligible for this scheme. In contrast, councils that outsourced the management of their leisure facilities to third-party contractors were eligible for JobKeeper support. This discrepancy led to significant inconsistencies and placed self-managing councils at a considerable disadvantage. Ultimately people doing the exact same job were deemed eligible or ineligible for JobKeeper support based solely on whether they worked at an outsourced or in-house managed facility.

MCC chose to retain staff during the lockdowns to maintain the employer-employee relationship, ensuring they were ready to resume operations once restrictions were lifted. This decision aligned with one of the key principles of the JobKeeper policy: to sustain employment relationships for a smooth transition upon reopening. However, without the financial backing of JobKeeper, MCC faced substantial financial strain.

MCC's ineligibility meant council had to absorb the full costs of staff wages during closures, unlike outsourced facilities that received federal support. This situation created a financial burden and highlighted the inequities in the support system, disproportionately affecting councils committed to direct management of their facilities.

Despite these challenges, MCC's commitment to its workforce ensured that the leisure facilities were fully staffed and ready to operate immediately upon receiving the green light to reopen. This experience underscores the need for more inclusive and equitable support mechanisms in future crisis response, as well as more general program design, to avoid significant inequities.



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