SUBMISSION TO VICTORIAN PARLIAMENTARY INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

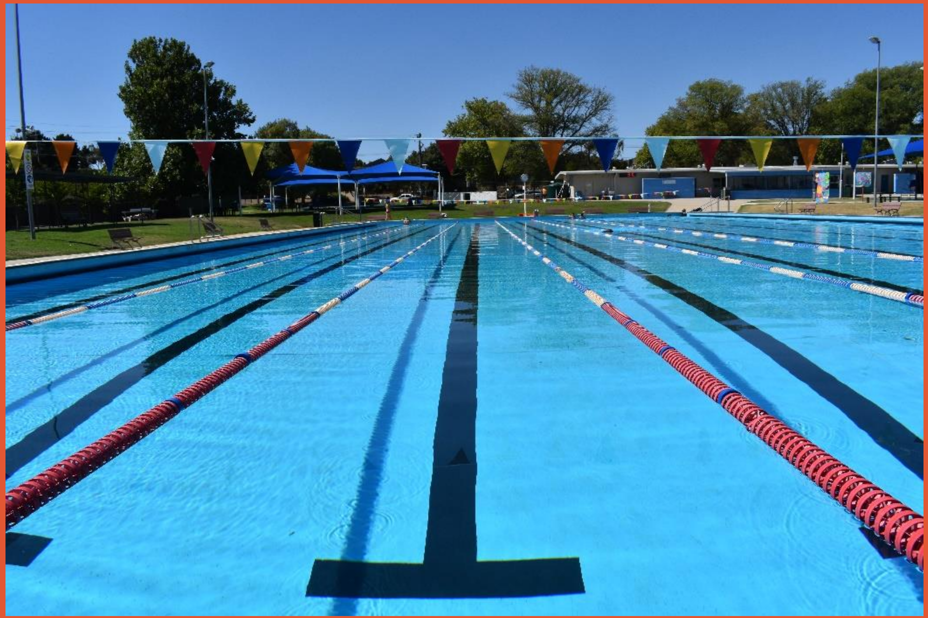
05.07.2024

The voice for local government

MUNICIPAL ASSOCIATION OF VICTORIA

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 governments that represent them–are at the forefront of multiple transformations happening simultaneously.

As the peak body for the Victorian local government sector, the Municipal Association of Victoria (MAV) offers councils a one-stop shop of services and support to help them serve their communities.



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.

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1 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 state priorities across numerous areas including community resilience, social cohesion and safety, climate change, and housing. This is in a context of local governments experiencing ongoing pressures to expand the range and community access to services across Victoria.

Through sources such as The Essential Poll, councils have been consistently found as the most trusted level of government in Australia. 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. Federal and State governments regularly lean on local government to efficiently deliver on local, state, and national priorities. Unfortunately this often occurs with little or even no funding.

Cost-shifting takes numerous forms but in each case contributes to the erosion of council's capacity to perform these roles. In areas such as building regulation the Victorian Government ascribes expansive responsibilities to councils without a revenue stream to resource them. Decisions by the Victorian Government also increase the cost of service delivery, whether through increased regulatory burden or direct impacts such as raising the landfill ley which will have increased from $65.90/tonne to $169.79/tonne from 30 June 2021 to 1 July 2025.

A recent report by Mornington Peninsula Shire Council[1] estimated cost shifting over the next five years to total $234m in operational costs and a further $38.4m in capital costs. Coupled with a rate cap that has never accurately reflected cost increases and councils find themselves in an increasingly precarious position.

As a result many Victorian councils are being forced to make hard decisions about which essential community services to stop delivering. For example, across Victoria many councils are exiting the provision of aged care, as their overall financial position has meant they can't carry the risk of an uncertain funding model.

[1] https://www.finpro.org.au/wp-content/uploads/pdf/MPSC-Cost-Shifting-Report-2024-for-Edition-4-2024-Member-Update.pdf

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.

Councils are also having to withdraw from arrangements the Victorian Government has directly benefited from. Many councils have arrangements to maintain state assets such as managing weeds and vegetation on roadsides. This has been an efficient use of local resources to date. However, funding agreements have now gotten so far removed from actual costs that councils are forced to withdraw. The City of Yarra estimates that its costs to maintain state assets were up to ten times the funding being provided[2].

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.

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.

While the disconnect between the rate cap and actual cost increases is important to address, it is not a panacea. Many of the most financially marginal councils are home to communities that could not absorb higher rate increases and their councils know this. We need to halt and reverse the process of cost shifting to councils, as well as better implementing principles of horizontal fiscal equalisation to equip all councils to succeeed.

The revenue structures for local governments in Victoria are not sustainable and alternative funding models are required. 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.[3] Accordingly, councils have large fixed costs to maintain these assets, imposing a major constraint on their budgets.

Large capital budgets also give rise to the risk of latent budget problems. Where revenue falls below expenses, a council may prefer to reduce spending on proactive maintenance or forward provision of infrastructure rather than implement immediate service cuts. Over time reduced maintenance and the need to catch up on backlogged infrastructure demand will lead to overall greater costs, exacerbating budget challenges.

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[2] https://www.yarracity.vic.gov.au/news/2024/04/10/council-ceases-maintenance-on-state-government-assets-in-a-better-deal-for-yarra-ratepayers

[3] MAV analysis of ABS Government Finance Statistics series - https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/latest-release

The benefits of improving local government financial sustainabiltiy are numerous, diverse, and immediate.

Financially secure councils are more proactive, from conducting 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[4].

Councils are also economic drivers and provide high quality stable jobs to over 40,000 Victorians[5]. For many professions councils are the breeding grounds where the workforce of tomorrow is nurtured.

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.

[4] https://www.myli.org.au/about/myli/

[5] MAV analysis of Victorian Local Government Grants Commission council employment data

Systemic recommendations

1. Recommit to the Victorian State Local Government Agreement 2014 and bring practice into line with its principles
2. Recognise the broad remit of local government and the value of financially secure councils to local, state, and national priorities.
3. Treat local government as a partner in policy development and implementation
4. Ensure that all councils can meet both the immediate needs of their communities and pro-actively address future challenges by:
   - Appropriately resourcing councils where they undertake functions on behalf of the State
   - Considering and addressing cost shifting impacts on local government when proposing changes to practice, regulation, or legislation
   - Providing adequate revenue streams through a combination of grant funding, cost recovery, and value capture mechanisms
5. Make grants more productive by:
   - Prioritising untied or loosely tied non-competitive grant programs
   - Reducing administrative burden
   - Easing co-contribution requirements
   - Continuing to fund councils for more than just shovel-ready infrastructure projects
6. Reform the rate capping system to:
   - Accurately reflect the cost pressures facing local government
   - Incorporate a mechanism to correct where cost increases have varied from forecasts
   - Adopt a simplified rate variation process to address wide-scale changes imposed upon council revenue or expenditure
   - Examine the potential benefits of:
     - Accommodating variations where population growth has outpaced annualised rate revenue
     - Implementing a multi-year approach to compliance with the rate cap, allowing councils more flexibility to manage revenue needs and community impacts from year to year.
7. Work with the MAV and local governments to improve understanding of and key indicators for local government financial sustainability
8. Ensure that infrastructure contribution mechanisms are fit-for-purpose, providing councils with the ability to deliver infrastructure that meets the expectations of Victorian communities in a timely manner.
9. Improve the assessment of proposed changes to legislation, regulation, or policy by:
   - Adopting improved processes for changes which don't trigger a Regulatory Impact Statement or Legislative Impact Assessment
   - Appropriately considering the impacts to local government when undertaking impact assessments
   - Ensuring when consulting peak bodies that they are permitted to and are given adequate time to draw on expertise from within councils
10. Bring exemptions from council rates in line with exemptions from the Fire Services Property Levy

In addition to the systemic recommendations, we make the following recommendations regarding specific service delivery areas or cost shifting impacts:

A. Amend the Windfall Gains Tax to:
    - Exempt councils from it; and
    - Require a proportion of the money collected through the Windfall Gains Tax to be reinvested into that area, with priorities determined in partnership with the relevant council.
B. Restoring cost sharing arrangements such as Maternal Child Health and School Crossing Supervisors to their original parameters
C. Where councils undertake work on behalf of the State, such as maintenance of state road assets, ensure they are funded appropriately to do so.
D. Reinstating funds that have been ended or reduced in scope such as the Growing Suburbs Fund and Community Roads and Bridges Program
E. Support councils to improve resilience in emergency recovery when replacing damaged infrastructure by:
    - Adopting the principle of betterment through the Disaster Recovery Funding Arrangements
    - Establishing a dedicated betterment fund
F. Reinvest more of the money collected each year through the landfill levy into waste minimisation and resource recovery in line with the waste hierarchy
G. Work with councils to ensure they have the capacity to accommodate the Best Start Best Life reforms to kindergarten
H. Change the approach to fees prescribed in legislation or regulation so that:
    - Where a maximum fee is prescribed it should be adequate to allow cost recovery for all councils
    - Where a set maximum fee across councils is not practicable, consider the use of variable fees based on the complexity of a task on a case-by-case basis
I. Ensure that in reviewing the building regulatory system, the responsibilities given to councils are aligned with adequate resources, including a dedicated funding stream
J. Improve the operation of the planning system through:
    - Addressing the high cost of strategic planning processes, including the cost of planning panels
    - Improving the cost effectiveness and timeliness of matters going to VCAT
    - Implementing a consistent state-wide planning approach to flooding and coastal inundation with the Minister for Planning responsible for implementing best-available flood and inundation data into planning schemes. These arrangements already exist for bushfire risk in Victoria and would reduce the risk burden on local communities.
    - Funding councils for their involvement in Ministerial permits, amendments, and the development facilitation pathway

The MAV would welcome the opportunity to host members of the Legislative Council Economy and Infrastructure Committee (the Committee) to visit a range of local governments throughout metropolitan Melbourne, and rural and regional Victoria to improve understanding of the wide remit of local governments today. We believe face to face visits to local governments across Victoria would also improve the Committee's understanding of the key indicators for local government financial sustainability; and to hear first-hand the challenges and local opportunities facing Victoria in the 21st century identified throughout this submission.

Finally, the MAV commends the *Financial sustainability in Australian local government Report* undertaken by SGS Economics and Planning, commissioned by the Australian Local Government Association (ALGA) just released on 3 July 2024, to the Committee. The report provides the most up to date analysis and evidence base, "quantifying the instances and implications of local government finances at risk through the lens of conventional financial performance indicators, the degree of vertical fiscal imbalance, uneven service access across Australia, and the influence of the Commonwealth and State governments on spending decisions" at the local government level. The full report is available: https://alga.com.au/app/uploads/SGS-report-Long-term-trends-in-Australian-local-government-financial-sustainability.pdf

2 Victorian local government

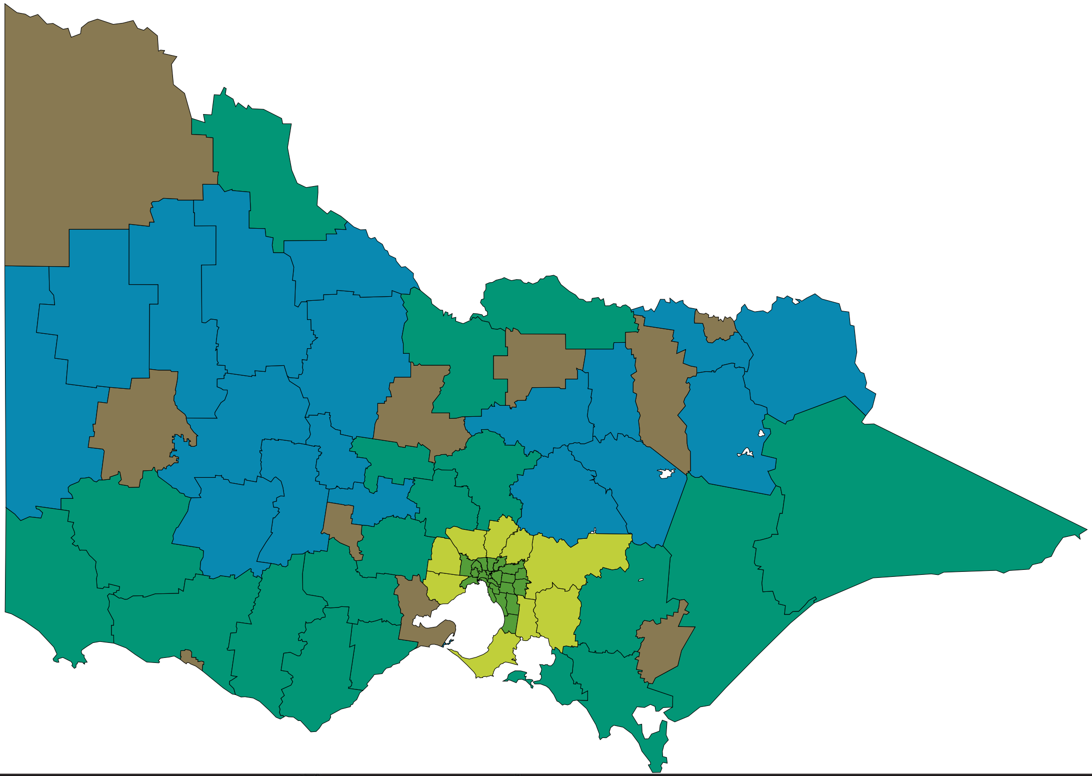
Victorian local government is made up of 79 councils representing the state's more than six million people.

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 below.



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]

2.1 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%.[6]

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.

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Transfers such as Financial Assistance Grants are not a nicety, they are a fundamental part of how Australian government works. However, grants and funding arrangements provided to councils have not kept pace with the costs of service delivery. 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.

[6] MAV analysis of ABS Government Finance Statistics series - https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/latest-release

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.[7]

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, with few exceptions.

2.2 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.

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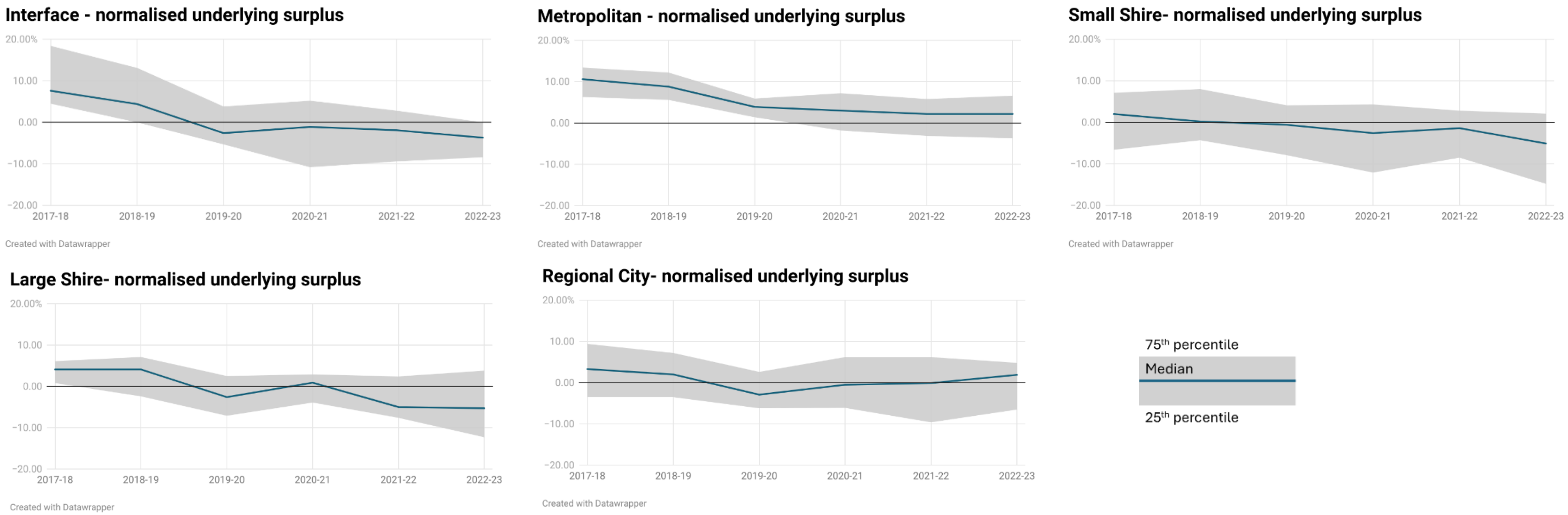
[7] VLGGC Annual allocation reports - https://www.localgovernment.vic.gov.au/funding-programs/victoria-grants-commission/publications



Council underlying surplus normalised to reflect Financial Assistance Grants in the year they are allocated from. Source: MAV; Data sources: VAGO - Audit of council finances; Department of Infrastructure, Transport, Regional Development, Communications and the Arts - Financial Assistance Grant cash payments

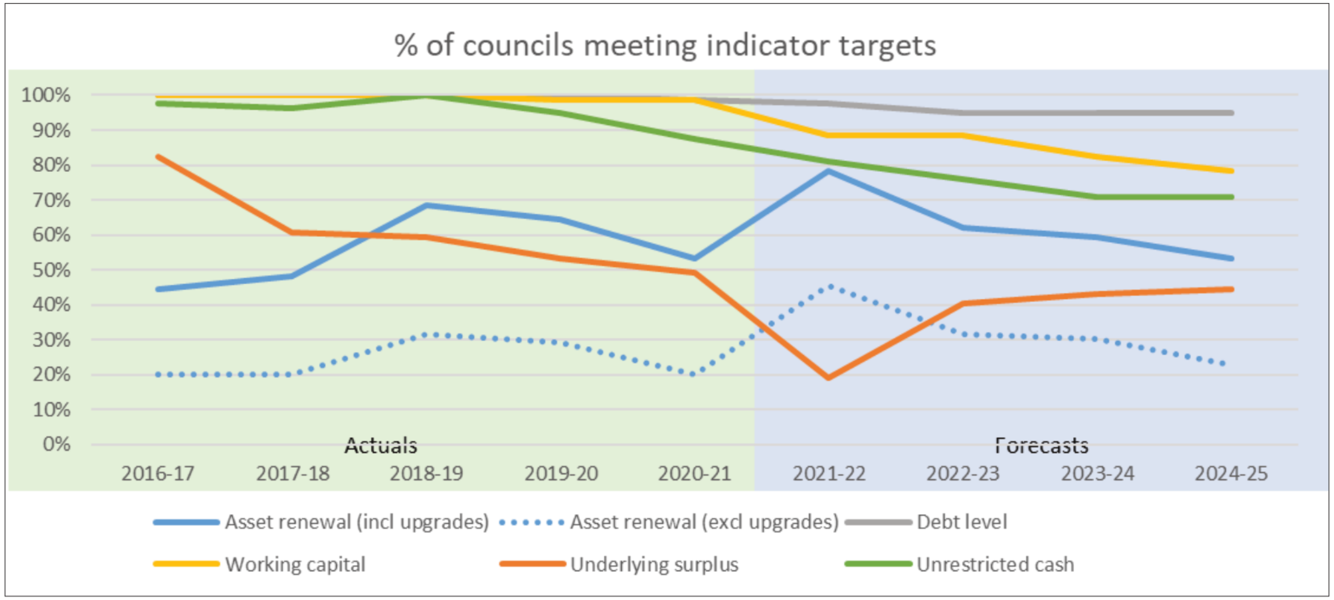
A key part of the deterioration in local government sustainability has been the introduction of a rate cap in Victoria. Victoria's rate cap is set based on Department of Treasury and Finance forecasts for CPI growth. There are two main problems with this.

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 Local Government Finance Professionals – The Sustainability Gap summary report[8]

[8] https://www.mav.asn.au/__data/assets/pdf_file/0005/32468/Sustainability-Gap-Summary-FinPro-MAV-Nov-2022.pdf

2.3 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 Database

3 Benefits of financially sustainable councils

3.1 What is financial sustainability

When we talk about financial sustainability for councils there are several factors to consider.

Financial sustainability	
Element	**Example**
Capacity to meet day to day expenditure for service and infrastructure delivery in line with community expectations and needs	As a neighbourhood experiences significant and sustained population growth, council is able to deliver and staff a new maternal and child health centre to meet increased demand.
Room to pursue continuous improvement and efficiencies to improve the long-term sustainability of the council over time	Council has the resources to undertake a review of its statutory planning processes and implement efficiencies both for council and those interacting with council.
Not compromising the position of future communities to meet immediate needs	Council can maintain an appropriate level of proactive maintenance of its asset base, ensuring that neither disproportionate costs nor substandard infrastructure is left for future communities
Resilience to unforeseen shocks	Following a significant flood event council is in a healthy financial position allowing it to implement both rate relief and increased service delivery for those in need.

3.1.1 Financial sustainability in Australian local government – SGS research report

Recently SGS Economics and Planning released new research quantifying the severity and impacts of local government financial insecurity, as well as the benefits of addressing this through increased funding.

The report can be found at https://alga.com.au/new-sgs-research-about-local-government-sustainability/

While focusing on federal funding, we believe the cost benefit analysis holds regardless of where the funding comes from.

It finds that nation-wide an investment of $1.75bn into local government would yield a $7bn increase to GDP. The quantum of investment is comparable to the additional tax revenue such a GDP increase would generate, so the investment would be largely cost-neutral.

Benefits identified included transport efficiency and avoided accidents on better maintained roads, community health benefits of more plentiful and higher quality open space, reduced regulatory burden through internal efficiencies pursued by councils, and savings in recruitment and cost from increased staff retention.

3.2 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 can 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.

3.2.1 Case study: Brimbank – 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 organizations. 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.

3.3 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. Several 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.

3.4 Stability

Having a strong financial base means councils can 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.[9]

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.

"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" [10]

- Victorian Treasurer Tim Pallas MP

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.

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.

[9] https://www.mav.asn.au/__data/assets/pdf_file/0016/25450/Councils-Supporting-Their-Communities-During-COVID-19-Summary-Fact-Sheet.pdf
[10] https://s3.ap-southeast-2.amazonaws.com/budgetfiles202425.budget.vic.gov.au/2024-25+State+Budget+-+Treasurers+Speech.pdf – p.3

3.5 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.

3.6 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[11], 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.

3.7 Continuous improvement

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

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[11] https://www.audit.vic.gov.au/dashboards/maintaining-local-roads

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.

3.7.1 Case study: Southern Grampians, Northern Grampians, Queenscliffe & West Wimmera – 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, standardized 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 standardized policies and procedures to maximize 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 modernizing digital infrastructure and setting the stage for future cooperation and efficiency in small rural councils.

3.8 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 collectively invest millions of dollars into football annually in the development and maintenance of football facilities"[12]

- Then AFL Victoria CEO Steven Reaper

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 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[13].

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.

12 https://www.aflvic.com.au/news/afl-victoria-hosts-local-government-forum-466823
13 https://www.latrobe.edu.au/__data/assets/pdf_file/0010/742528/Latrobe_Value-of-a-Community-Football-Club_summary_FINAL.pdf

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)

3.8.1 Case study: Greater Geelong – 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.

3.9 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[14].

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.

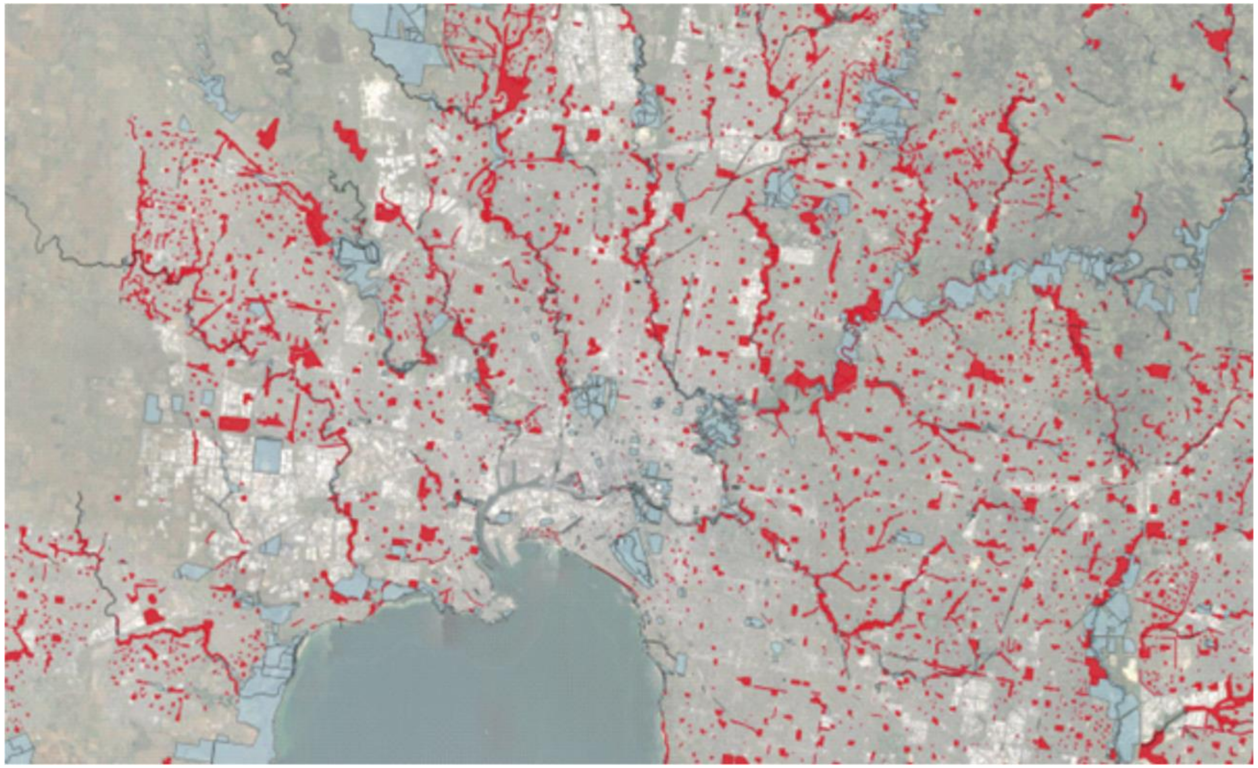
The benefits of open space will also become more pronounced as the impacts of climate change become more severe.

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.

[14] MAV analysis of Victorian Planning Authority Metropolitan Open Space Network

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.



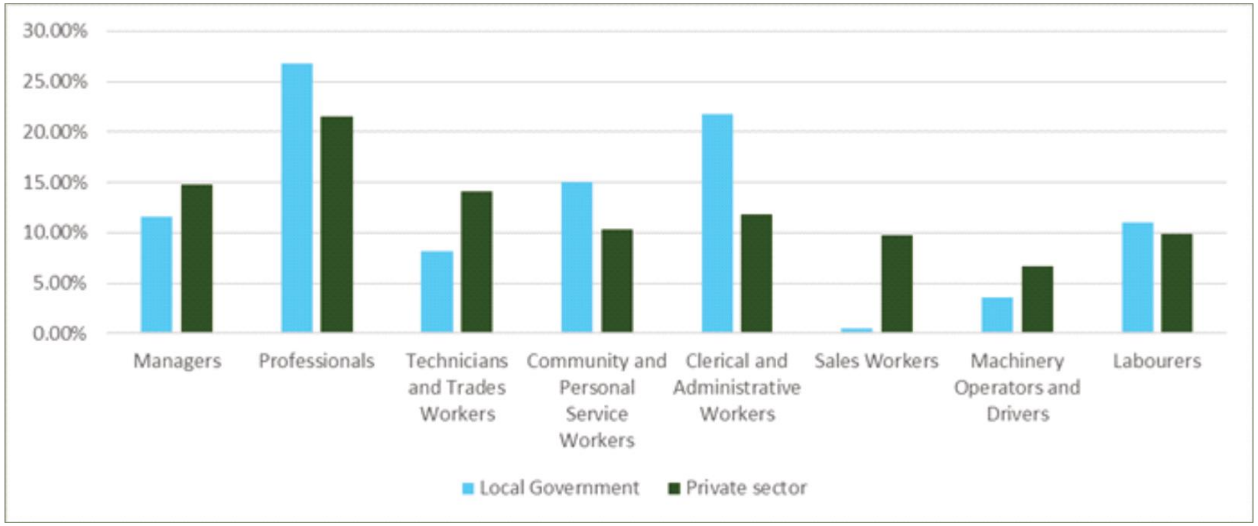
Melbourne's open space network. Council owned land highlighted in red and other public open space in blue. Source: MAV, data source: Victorian Planning Authority - Metropolitan Open Space Network

3.10 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.

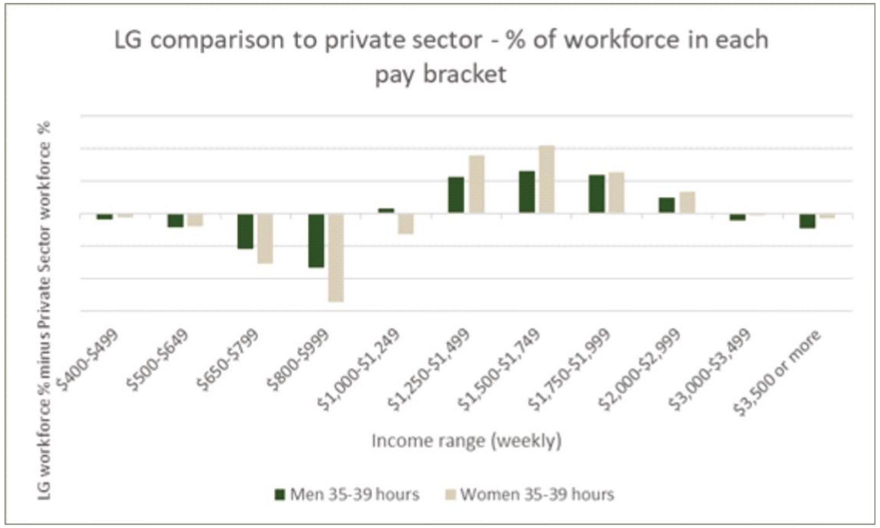


Source: MAV, data source: ABS 2021 Census TableBuilder

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.



Source: MAV, data source: ABS 2021 Census TableBuilder

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 estimated that more than 20,000 indirect jobs are created by local government activity (through downstream consumption and upstream supply chain impacts)[15]. This is in addition to the 50,000 people directly employed by councils.

[15] https://futurework.org.au/wp-content/uploads/sites/2/2022/11/ASU_Rate_Caps_Report_Final.pdf

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.

Councils are highly complex organisations with a broad range of statutory functions and obligations delivering over 100 public services to diverse communities. Council CEO remuneration in Victoria is commensurate with the executive salary bands of the Victorian Public Service. Elected representatives are responsible for CEO employment and set remuneration at a level they determined appropriate to attract and retain suitably qualified candidates. This process is subject to a range of accountability measures including oversight from the numerous integrity agencies.

3.10.1 Case study: Wangaratta – 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 another layer of 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.

3.10.2 Case study: Yarra – 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 stabilize 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.

3.11 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[16] identified specific functions as particularly at risk where finances become a problem:

- 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.

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[16] https://alga.com.au/app/uploads/Importance-of-Financial-Assistance-Grants.pdf

3.11.1 Case study: Greater Dandenong – 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.

4 Revenue sources

Councils draw on a number of sources of revenue to fund their activities.

A combination of grants and rates and charges make up approximately 80% of revenue across comparator groups. Metropolitan and interface groups are more rate-concentrated, while rural and regional councils are more grant-concentrated.

Sources of revenue for Victorian councils - 2022/23

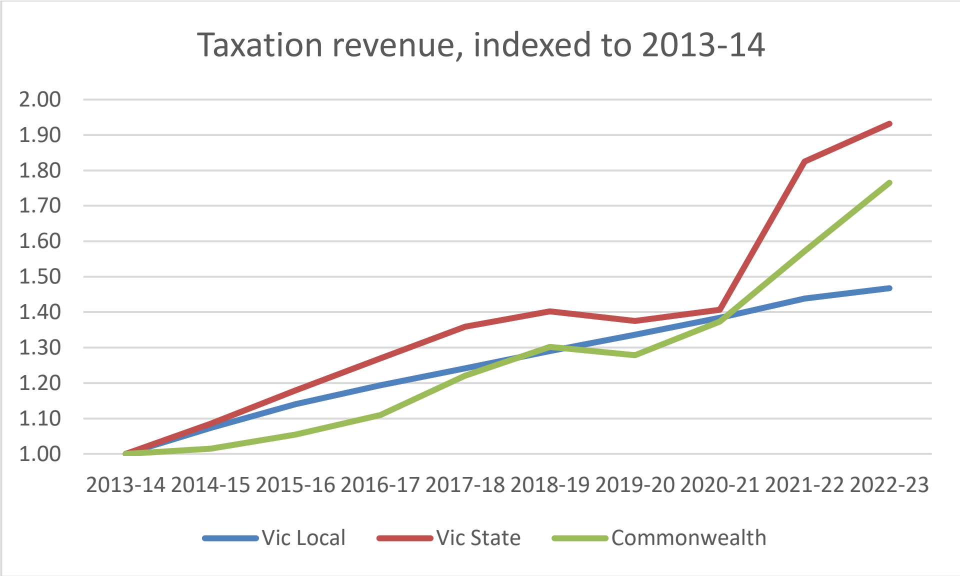
	Rates and Charges	Grants	Statutory Fees and Fines	User fees	Development contributions	Other revenue
Metropolitan	63%	14%	6%	9%	4%	4%
Interface	43%	14%	3%	5%	32%	3%
Regional Cities	48%	22%	2%	10%	13%	4%
Large Shire	47%	31%	2%	7%	9%	5%
Small Shire	42%	46%	1%	5%	2%	5%

Source: MAV, data source: VAGO Audited financial results of Victorian councils

4.1 Rates

Rates and charges form the largest source of council revenue.

Since the introduction of the rate cap, council tax revenue has lagged significantly behind other levels of government and more importantly behind cost pressures (expanded upon under Local Government Cost Index).



Source: MAV, data source: ABS Government Finances

We are not seeking to abolish the rate cap, however we believe there are necessary improvements that must be made to its operation.

The use of CPI forecasts from the Department of Treasury and Finance is a poor basis for the rate cap. As expanded upon under the Local Government Cost Index section, since introduced the rate cap has reflected just 60% of the cost increases facing councils.

Where using a forecast measure it is also important to include a correction mechanism. Currently the rate cap is set at the projected CPI with no regard given to whether the previous rate cap met forecasts or not. This leads to the compounding gap between costs and revenue that we have seen. If costs have increased above what was projected, the following year's rate cap should allow councils to "catch up" the gap. Similarly, if cost increases come in below projections the next rate cap should be set lower than it otherwise would to reflect this. The rate cap could be set within an upper and lower bound, with the correction mechanism being applied across multiple years to reduce the level of volatility.

A similar multi-year approach could be taken to compliance with the rate cap. Currently councils plan budgets across a multi-year period but must comply with a year-by-year rate cap. Councils would be more able to be flexible and responsive in their revenue and rating plans if they were able to instead comply with the rate cap over a longer period of time. For example, during the most significant economic impacts of the COVID pandemic councils could have more readily offered rate freezes or increases below the cap if they had confidence this would not create a permanent hole in their revenue. Similarly, councils may be able to bring forward own-source funding for a capital program followed by years of lower rate caps.

Ensuring functionality for councils and transparency for ratepayers in such a model is a complex proposal. A possible starting point is through the current variation mechanism. The ESC has previously issued multi-year variations in some instances. A small number of councils could work with the ESC and LGV on piloting a multi-year rate cap through that pathway.

Where Victorian Government initiatives require changes to rates across a large number of councils, we believe there should be a streamlined mechanism for councils to apply for a variation to the ESC. A streamlined pathway could also apply where councils are able to demonstrate revenue neutrality, e.g. moving existing costs from outside of the general rate to within it.

In New South Wales the Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the rate peg. IPART's methodology includes a council-by-council component to address where annualised supplementary valuations do not account for population growth[17]. Within a given council population growth is the primary driver of expenditure increases. To some degree this is offset by the current approach of incorporating supplementary valuations into the base rate for the following year. However in many cases population growth will outpace increases in capital improved value of properties leaving a further funding shortfall.

While addressing the rating system is important we want to emphasise that it cannot address council financial sustainability by itself. In many councils capacity to pay is reaching its limits. We have seen several rural councils in particular adopting rate increases below the rate cap since the beginning of the COVID pandemic.

[17] https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Rate-peg-for-NSW-councils-for-2024-25-21-November-2023.PDF

We also note several councils, including Murrindindi Shire Council, make further detailed recommendations regarding changes to the rating system. We encourage the Committee to refer to Murrindindi submission for an example of a small peri-urban council identifying practical solutions to the complex issue of financial sustainability in local government.

4.2 Grant funding

Given the disparity between the capacity to raise own-source-revenue and service delivery obligations between levels of government, grants are a necessary part of council revenue.

4.2.1 Federal grants

The largest single source of grant funding to Victorian councils are Financial Assistance Grants from the Commonwealth and administered through the Victorian Local Government Grants Commission. Previously adopted as a revenue-sharing arrangement between Commonwealth and Local governments and valued at 1% of Commonwealth tax revenue, they are now less than half of 1% and this figure is trending downwards.

A 2022 report by AEC Group commissioned by the Australian Local Government Association (https://alga.com.au/importance-of-the-financial-assistance-grants/) found that restoring Financial Assistance Grants to 1% of Commonwealth tax revenue would cost $2.4bn and yield a $3.4bn increase in Gross Regional Product whilst supporting an additional 22,814 FTE of jobs directly and indirectly. Further research from SGS Economics and Planning (see 3.11.1) suggests the return on investment could be even higher, and the increase in GDP would make the initiative largely cost neutral.

Distribution of Financial Assistance Grants is through a needs-based formula developed by the VLGGC based on nationally agreed upon principles. There is some merit to reviewing the distribution of Financial Assistance Grants, however the first priority must be to grow the quantum of funding and we seek the Victorian Government's support in this advocacy.

Beyond the quantum of funding available, Financial Assistance Grants are important because they are untied non-competitive grants. This means they are allocated to councils without the need to submit extensive grant applications, and do not carry a large administrative burden to acquit.

4.2.2 State grant programs

All Victorian councils and their communities have benefited from various state-run grant programs. We believe there are key opportunities to improve the productivity of these grants.

For many councils, particularly rural ones, writing grant applications is a major burden. They likely do not employ a grants officer, so the task takes time away from other day-to-day activities. It can be possible for funding to be allocated based on the quality of the grant application rather than the substance of the proposal it represents.

Where grants are loosely tied, they allow for funds to be directed to local priorities the community really needs. Where limited grant opportunities are available councils may be drawn to prioritising those above other needs. Where co-contributions are required, this may actually result in less money being available for other higher priorities within the municipality.

The level of co-contribution required can also be a barrier to small councils being able to access grant programs at all. Co-contribution ratios are often set state-wide, disadvantaging small councils compared to larger metropolitan ones.

There is an understandable preference for grant programs to fund projects which are ready to go, with all the prior planning being complete. This may be explicit in application requirements, or it may be reflected in deliverables and timeframes. Many councils don't have the resources available to dedicate to feasibility studies, service reviews, and other important activities that happen beforehand. We need more opportunities for those councils to be supported in undertaking best practice approaches to project planning.

Councils are also facing major cost pressures due to demand for infrastructure outpacing supply. By allowing for more flexibility in delivery timeframes we could ensure councils aren't paying a premium to meet arbitrary timeframes.

The report into local government financial sustainability across Australia by SGS Economics and Planning released on 3 July 2024 provides evidence that increased block transfers of funds from Commonwealth and states to local government can save $235.64 million in administrative costs and increase GDP by $300 million each year[18].

4.3 Prescribed fees and fines

In many cases the fees and fines which councils are permitted to charge are prescribed in legislation or regulation.

[18] https://alga.com.au/app/uploads/SGS-report-Long-term-trends-in-Australian-local-government-financial-sustainability.pdf

The most common forms taken are a single prescribed amount or a maximum amount. Today most fees and fines are set in terms of fee units or penalty units meaning they are indexed, usually in line with CPI, each year without needing to update each individual prescription.

In setting these amounts the Victorian Government seems to approach councils as a bloc rather than recognising the diversity between them. This approach is suitable for central agencies and departments, which face similar cost drivers and can cross-subsidise internally. However, it has very different impacts when applied to councils.

In prescribing fees and fines the Victorian Government often errs on the side of simplicity, setting a single amount across council types and categorising tiers of fee within the same category quite broadly. When considering cost recovery the approach is often to look at median costs across councils or a level where some majority of councils might achieve cost recovery.

This means that many prescribed fees are set at a level where cost recovery is not possible for a portion of councils. In many cases cost drivers are common across different functions, so a council that faces high costs of delivering building regulation may also have high relative costs for regulating food safety.

Rather than a council being able to fully recover costs in one area but not another area, it is more likely that low levels of cost recovery will be concentrated within certain councils.

In addition to the concentration effects we find that the level needed for cost recovery is often underestimated across the board.

We believe that this could largely be solved by extending a level of trust and treating councils as partners. By setting a maximum fee that allows for cost recovery by all councils, councils where delivery costs are lower are able to set their fees below this amount.

For some fee types the diversity of cost may be centred in the broad range of activities a fee covers rather than the differences between councils. Regulations could prescribe methods for determining fees rather than set fee amounts. The Environment Protection Regulations for example set fees for the Environment Protection Authority to assess development licence applications based on the time taken to assess.

A combination of these approaches, as well as a commitment to more closely understanding the cost drivers facing councils, would help in ensuring fees and fines are set at appropriate levels.

4.4 User fees

Outside of prescribed fees, councils may charge for access to services they provide. The most obvious example is for council facilities such as swimming pools. Councils face competing interests in whether to subsidise these services, operate at cost recovery, or to use them as a revenue driver to fund other activities.

Subsidising access to these facilities can help improve equity of access within a community. Often those who would most benefit from community facilities are those least able to afford a full priced fee.

Improving access to facilities can also carry indirect benefits, in some cases significantly exceeding the cost of subsidy. The societal benefits of improved health and fitness are a good example. Costs of reactive healthcare are reduced while participation at work and in the community is improved, as well as the clear personal benefits. The economic benefits are often not ones realised directly by councils however.

With the number of competing interests within a community, a position of cost recovery may be an attractive one. This can be seen as council not favouring the users of particular services over the broader community, nor penalising them.

Alternatively, many council activities are unable to generate a positive financial return. It can thus be attractive to capitalise on those which can do so to help support the broader activities of council.

Identifying the appropriate strategy for setting fees within a given municipality is one of the more complex tasks that councils face in their budgets, and there is no one-size-fits-all approach.

4.5 Development contributions

Development contributions represent an important source of capital funding to provide for growing communities. Developers realise significant profits from intensifying development within a municipality while generating additional demand on services and infrastructure. It is appropriate that some of those profits go towards providing for the infrastructure new residents need.

The current implementation of contributions has several major problems and we believe reforms are needed to enable fair and orderly delivery of place-making and community-building infrastructure for all Victorians.

4.5.1 Contribution mechanisms

The availability of different tools for infrastructure contributions in different areas and development contexts should be a strength of the system, not a weakness. For the benefits to be realised each tool must have a clear purpose and must be fit for that purpose.

In a 2021 submission to the Infrastructure Contributions Advisory Committee the MAV proposed potential use cases for four tools

Tool	Use-case	Requirements
Infrastructure Contribution Plan (ICP)	Relatively high-growth development areas without major complicating factors	Standard levies reflect reasonable contributions across a development typology. Ability to make some departures from the standard levy while retaining the benefits of consistency.
Development Contribution Plans (DCP)	Bespoke instrument for development areas where infrastructure needs or delivery costs are not standard	Agreed upon principles of cost recovery and infrastructure standards.
Municipality-wide DCPs	Broad-based contribution to infrastructure from development that increases demand	Agreed upon principles of cost recovery and infrastructure standards Consistent approach to the interaction with other cost-recovery tools
S173 agreements (or an improved alternative)	Growth rate does not justify the overheads of a DCP/ICP Individual projects	A framework to improve consistency and transparency within and between councils

Councils face significant risks in committing to contribution plans. Caps on contribution rates are often out of step with delivery costs and indexed well below cost increases. Changes in land prices have led to major cost blowouts. We believe this to have been addressed to some degree through the adoption of a land equalisation model within ICPs and have advocated that a similar model be considered for inclusion in DCPs.

The timing of roll-out has also often been a challenge for councils, with the staging of development not necessarily reflecting infrastructure delivery. Councils have faced the prospect of delivering on infrastructure long before contributions are paid. With the scope of some contribution plans in the tens and hundreds of millions of dollars this can pose a challenge even for large councils to finance.

Despite Development Contribution Plans (DCPs) and Infrastructure Contribution Plans (ICPs) existing for decades now there are still glaring omissions in their implementation.

There are no agreed upon principles for the level of cost recovery that should be sought. This makes it impossible to assess whether they are performing well or not.

Beyond capital costs, councils will generally take ownership of the infrastructure built adding ongoing operational and maintenance costs to council budgets. In some cases this has seen developers seek to implement solutions that are cheap to install but expensive to maintain.

Councils have often faced accusations of “gold-plating” infrastructure through contributions. A 2020 VAGO report on the development contributions system found no evidence of this occurring[19]. Contribution plans are intended to meet a “basic and essential” level of infrastructure but the meaning of this has never been established. We believe that this needs to be based on reasonable community expectations of the infrastructure necessary for their neighbourhoods.

Over the last decade the State has transitioned metropolitan greenfield councils away from Development Contribution Plans (DCPs) to Infrastructure Contribution Plans (ICPs). ICPs seek to provide a largely “off the shelf” solution for a contribution plan rather than having to develop bespoke DCPs from scratch in every instance.

There have been several attempts to design ICP mechanisms for use in regional greenfield areas[20] as well as strategic in-fill sites, however neither have gotten near implementation.

Regional contributions present unique challenges. Costs of infrastructure provision can be as high or higher than in metropolitan areas. Land values and thus capacity to pay are generally lower. Rates of development are slower, exacerbating the timing challenges between development and infrastructure delivery.

Rural and regional councils generally also have less capacity to absorb shortfalls than metropolitan counterparts.

[19] https://www.audit.vic.gov.au/report/managing-development-contributions
[20] https://vpa.vic.gov.au/regional-infrastructure-contributions-plans/

Fragmented land ownership and the presence of more 'mum and dad' developers present additional challenges for regional contributions. In these locations, developers generally do not have the scale to perform in-kind contributions or deliver large up-front contributions to shared infrastructure projects.

Delivery of trunk infrastructure (i.e. sewerage and water) presents ongoing and urgent barriers to delivering new housing developments in rural and regional towns. Smaller shires in particular do not have the resources to negotiate cost-recovery options, and pursuing complex planning scheme amendments to implement a contributions plan are not worth-while.

We understand that as part of work following from Victoria's Housing Statement the idea of baseline infrastructure charges across Victoria are being considered. It's unclear what form this will take. What is clear through the numerous attempts to develop ICPs for regional greenfield areas and strategic in-fill areas is that a one-size-fits-all model is extremely challenging, if possible at all.

4.5.2 Leveraging existing infrastructure

Strategic infill also faces challenges. Land values will be comparatively higher due to their location. It will be far more complex to differentiate demand generated from new development compared to unmet demand from existing established communities. It has often been claimed that infrastructure costs can be cheaper for in-fill development as they can leverage off existing infrastructure. This is true to a point. Where demand can be absorbed through upgrading or making use of existing facilities the costs of servicing demand may be cheaper than in establishing new infrastructure in greenfield areas.

However, at some point a threshold will be met where demand exceeds the ability for existing infrastructure to be upgraded. At this point delivery will likely become significantly more expensive than an equivalent greenfield site due to the cost of land and the complexity of dealing with existing infrastructure and development. Utilising existing stormwater assets for example can be relatively cheap up to a point, beyond that limit of capacity it becomes very expensive.

4.5.3 Administration and management

The preparation of a plan and seeking approval from the Minister are lengthy and expensive processes. This is something the ICP program sought to streamline, but it has not solved it completely.

Administering and reporting on contribution schemes is also complex and resource intensive activity for councils. This often includes significant investment in technology to manage data and records, as well as permanent staff. Managing infrastructure contribution schemes is a specialist skillset within planning and not currently taught through university courses.

4.5.4 Case study: Port Phillip – Impact of build-to-rent reforms on development contributions

Well-meaning reforms have unintended consequences for infrastructure provision

A further form of contribution mechanism are public open space contributions levied under the Subdivision Act.

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 enliven 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.

4.6 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, 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[21].

There are benefits to 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.

4.6.1 Case study: Moonee Valley – 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.

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[21] https://media.ruralcouncilsvictoria.org.au/wp-content/uploads/2022/12/13085030/20220153-RCV-own-source-income-Updated-Final-report-221212.pdf

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.

5 Cost drivers

5.1 Local Government 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[22].

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.

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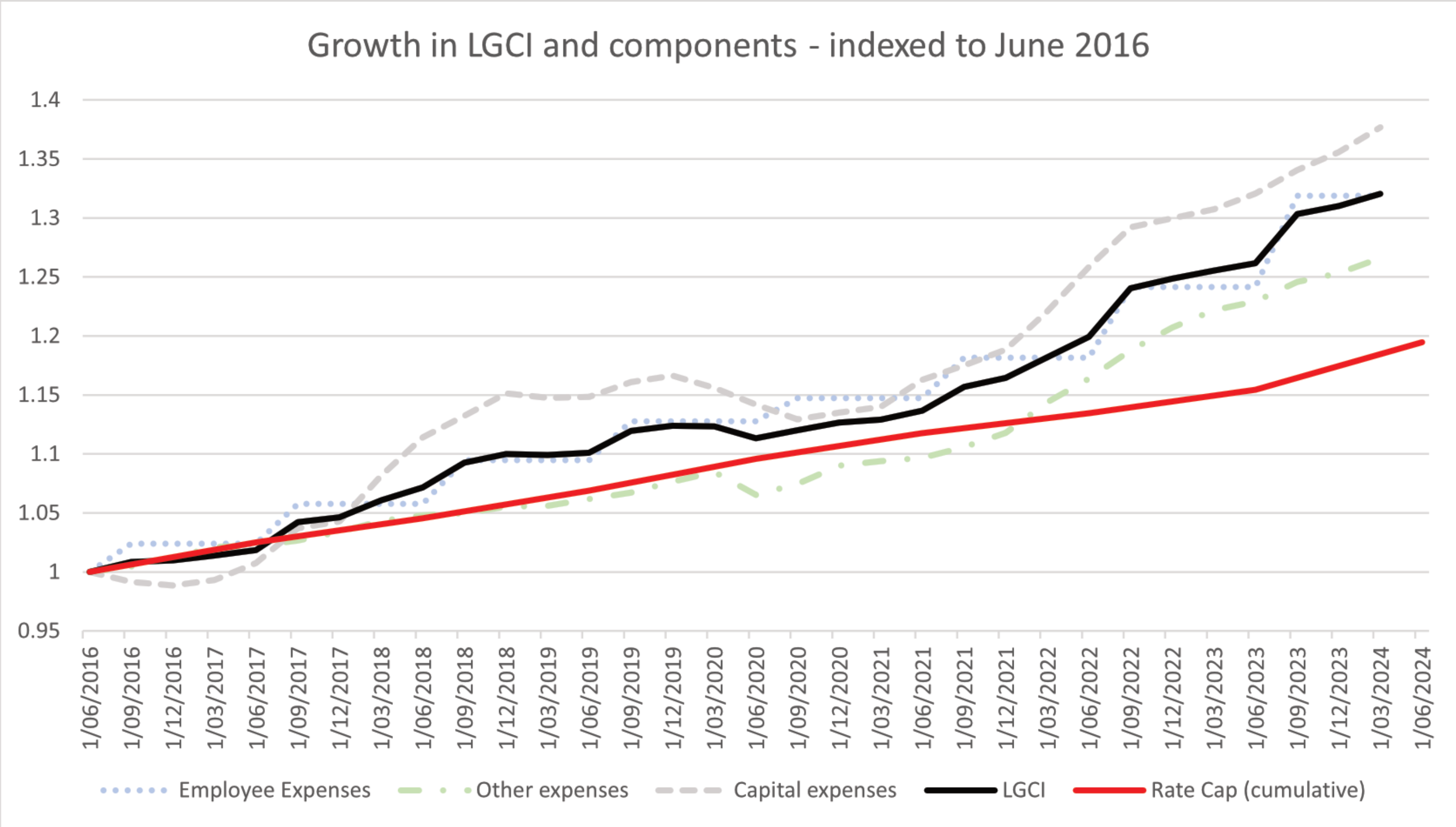
[22] MAV analysis of ABS Government Finances series

Using a methodology recently adopted by NSW's Independent Pricing and Regulatory Tribunal 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%.



Source: MAV

5.2 Infrastructure delivery

Infrastructure Australia 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.

An MAV survey of councils in late 2022 found that over 80% of respondents had seen responses to infrastructure tenders weaken over the preceding 12 months[23]. This is particularly challenging given tied grants are often quite strict in delivery timelines.

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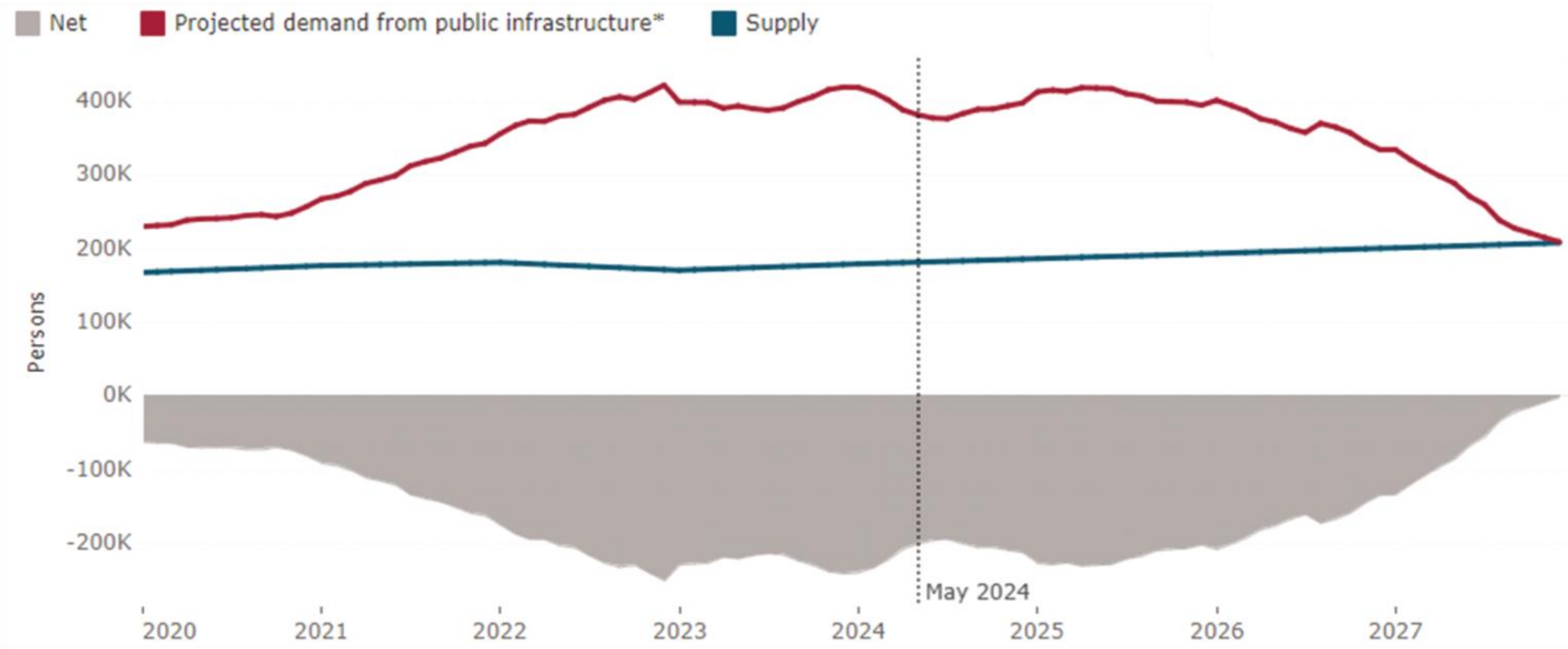
[23] https://www.mav.asn.au/__data/assets/pdf_file/0005/31748/MAV-infrastructure-pressures-summary-report-Nov-2022.pdf



Source: Infrastructure Australia - Public Infrastructure Workforce Supply Dashboard[24]

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.

[24] https://www.infrastructureaustralia.gov.au/public-infrastructure-workforce-supply-dashboard

5.2.1 Case study: Mornington Peninsula – 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.

5.3 Climate change

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, we are already facing largescale extinction of native species. Councils will need to 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.

A 2021 report by the Climate Council[25] categorised climate risks faced by local government into direct, indirect, and community risks.

The report draws on case studies to illustrate the different types of risks and impacts, and the burdens placed on councils, citing "Communities and the councils that support them are experiencing the brunt of more severe and frequent extreme weather events. These disasters risk human life, property, economies and councils' abilities to fulfill their myriad of functions within the community". For example, after storms in June 2021 brought significant damage and prolonged power outages to the Yarra Valley region, initial conservative estimates of the required financial commitment to undertake the necessary rehabilitation, restoration and recovery work were approximately $65 million (Yarra Ranges Council 2021).

Worsening extreme weather, driven by climate change, is compounding costs for councils. This includes mounting damage to council owned assets, rising insurance premiums and increasing liability risks. Critical council infrastructure including roads, drainage and coastal defences, is being damaged by more frequent and/or severe extreme weather, and state and federal assistance is falling short of what's required.

The competitive nature of grants, shrinking share of tax revenue and growing list of responsibilities paints a clear picture of the insufficient funding provided to councils to undergo essential climate change mitigation and adaptation work.

It has been estimated that a $10 billion fund is required to support local governments and communities across Australia to address climate change, both in terms of improving the resilience of local communities and reducing emissions (ALGA 2019).

5.3.1 Case study: Greater Shepparton – 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.

[25] https://www.climatecouncil.org.au/wp-content/uploads/2021/09/Report-Councils-on-the-Frontline_V5-FA_Low_Res_Single_Pages.pdf

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.

5.4 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 their 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[26]. In addition to the environmental benefits of a circular economy, it would free up funds for other vital services and infrastructure.

5.5 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[27].

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 Melbourne and Shaping Regional and Rural Victoria[28]. These are intended as the start of a conversation between councils, communities, and other levels of government on how to ensure Victoria prospers into the future.

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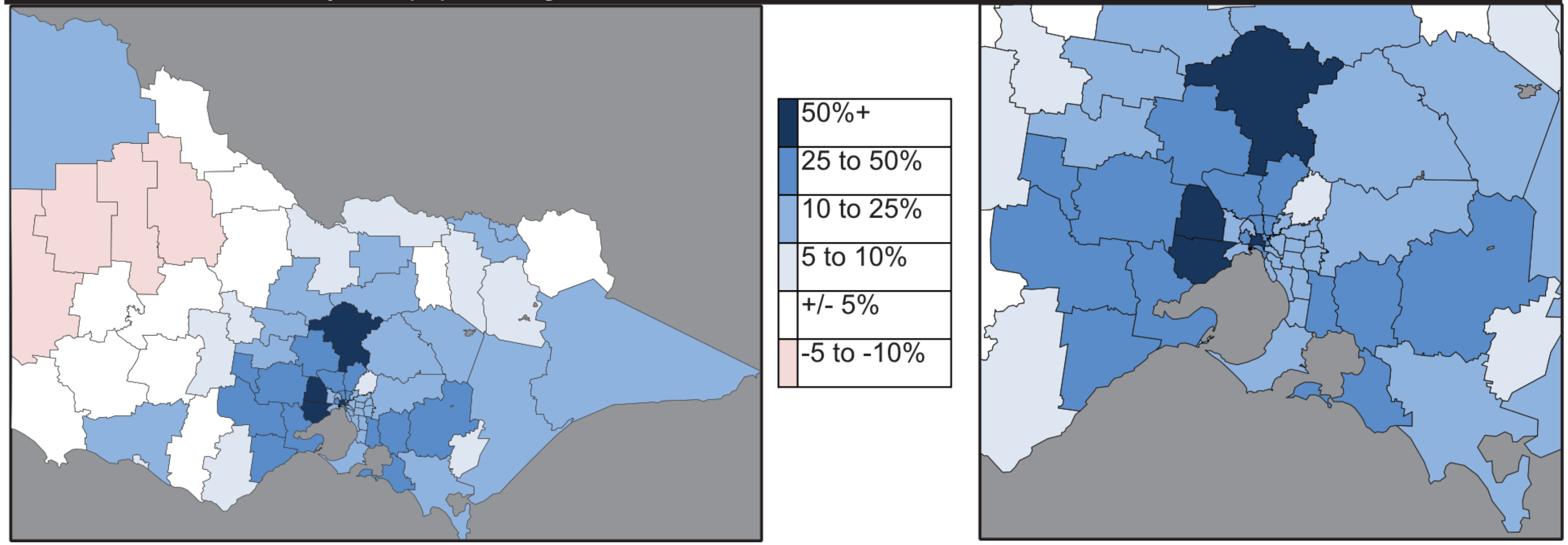
[26] MAV Analysis of VLGGC Council expenditure and revenue data

[27] https://www.planning.vic.gov.au/guides-and-resources/Data-spatial-and-insights/discover-and-access-planning-open-data/urban-development-program/victoria-in-future

[28] https://www.mav.asn.au/what-we-do/policy-advocacy/planning-building

Projected population growth from 2021-2036 for Victorian Local Government Areas

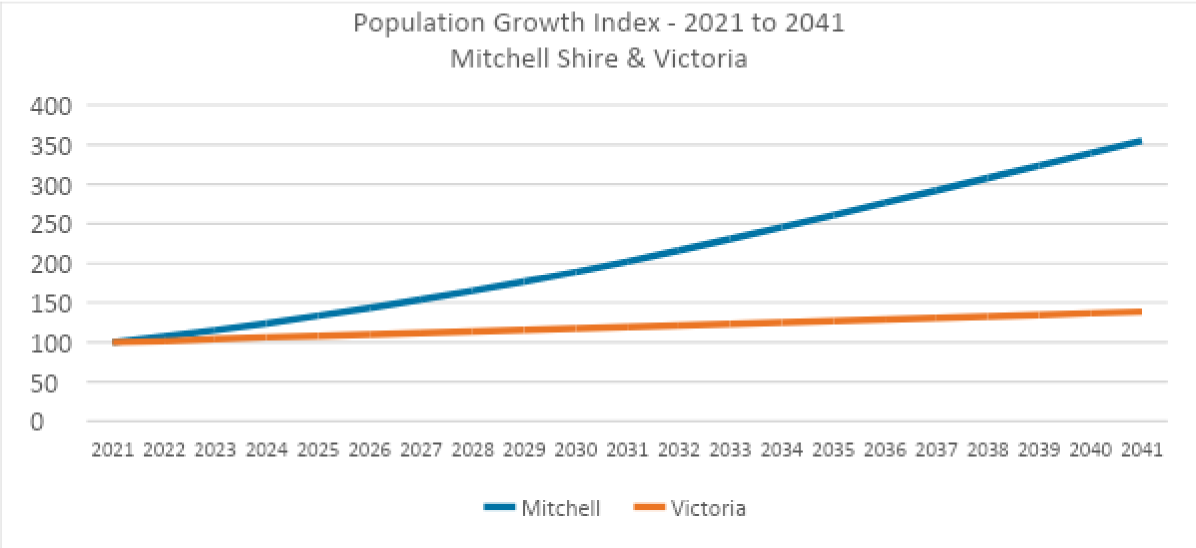


Source: MAV, data source: Department of Transport and Planning - Victoria in Future

5.5.1 Case Study: Mitchell – Planning for rapid population growth

In the 20 years from 2021 to 2041 it is estimated that one out of every five Victorians will live in Mitchell Shire, past the outskirts of Melbourne's northern greenfield growth areas. While the overall Victorian population will grow by 38%, Mitchell will grow by 250%.

Mitchell has traditionally been a low-population and geographically large shire, so does not have the strong starting position that denser and more populous would. Many of the population centres to accommodate projected growth will be more or less new and incur significant initial costs, rather than being able to boost the capacity of existing infrastructure.



Source: Mitchell Shire Council submission

Mitchell projects significant shortfalls and the need for greater assistance as it transitions from a rural shire to a rapidly developing growth area.

The key challenges are:

- Renewing and maintaining services to an existing population and extensive asset base over a vast geographic area
- Engaging and managing strategic land use planning challenges and significant unconstrained housing development across multiple growth fronts
- Building organisational service capability and assets and infrastructure for future communities

5.6 Legislative and regulatory change

One of the largest cost drives for local government can be legislative or regulatory change initiated by other levels of government.

Some of the types of changes include:

Legislative or regulatory change impacting councils	
Change	**Example**
Introducing or altering council's responsibility as a regulator	Changes to the Building Act and Building Regulations to introduce a swimming pool safety barrier inspection regime, with councils having oversight within their municipality and being required to take action where proof of compliance is not lodged by a property owner.
Introducing or altering requirements for councils to provide a service to the community	Changes to the Circular Economy Act and Regulations requiring councils to provide a four-stream waste and recycling service to households within their municipality
Prescribing levels for fees or fines which council can charge	Changes to the Domestic Animals Act and Regulations regarding the fees councils may charge for the registration of domestic animals
Introducing or altering specific requirements on councils	Changes to the Local Government Act on what activities can be funded through the setting of a service rate or charge
Changes to non-regulation subordinate instruments	Changes to planning schemes to move types of applications into the VicSmart streamlined assessment pathway which reduces decision timeframes and may attract different application fees.
Changes to requirements on public sector organisations	Changes to the requirements for processing applications under the Freedom of Information Act
Introducing or altering requirements on councils as an organisation	Changes to the Environment Protection Act and Regulations to introduce a General Environmental Duty requiring persons and organisations to proactively minimise risks of harm via pollution
Costs directly imposed on councils	Raising the rate per tonne charged through the waste levy significantly above indexation

Each of these types of change can have impacts, potentially significant ones, on the ways in which council performs its functions and the cost of doing so.

Where a change is introduced through regulations a Regulatory Impact Statement (RIS) will generally be prepared. This requires a period of public consultation. Often, stakeholders will also be consulted prior to this when drafting the RIS in order to help develop the assumptions and options that are contained within. The RIS will also generally be accompanied by a draft form of the regulations required to implement the preferred option.

Where changes are made through legislation, a Legislative Impact Assessment might be undertaken, however this is a closed process. Previously where significant changes are proposed an exposure draft of legislation would be circulated with stakeholders or made public prior to being introduced to Parliament, however this is becoming more rare. Increasingly the timeframes between the Government introducing legislation and bringing it to a vote are becoming shorter, further restricting the ability for stakeholders to assess potential impacts and raise these with legislators.

Even where concerns are raised, there is a strong underlying preference to pass legislation as introduced without amendments.

After legislation is passed any further changes can be extremely slow to progress, even when necessary to address important issues.

Outside of the public consultation for a RIS, when consultation is undertaken it is increasingly perfunctory. A small number of stakeholders may be consulted, strict timelines imposed, and complete confidentiality sought.

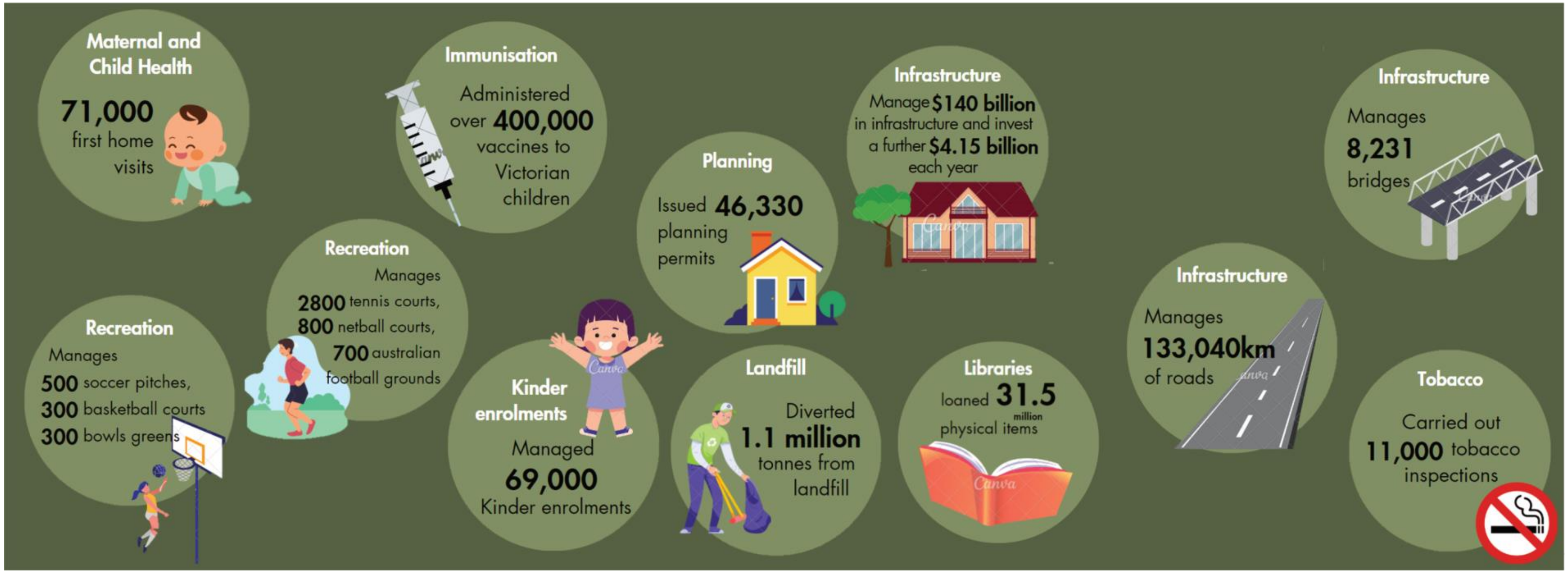
It is imperative that the MAV, the legislated peak body for Victorian local government is engaged by the state government to comprehensively provide constructive feedback and policy advice on the breadth of changes that directly or indirectly affect local councils. To provide this constructive policy advice, the MAV draws on the expertise, data and evidence from local governments in metro, rural and regional Victoria. This approach requires adequate engagement timeframes to seek direct feedback and case studies from the councils most directly impacted by a proposed change.

Furthermore, the preferred and optimal approach to policy development or proposed funding changes is a co-design approach, where the MAV can coordinate the advice of local government as the state government is developing or shaping policies or programs. This approach will lead to better informed policy development leading to better outcomes for the community, councils, and the State Government.

6 Local government service delivery

The breadth of activities undertaken by councils touches every resident in their day-to-day life.

Council activities	
• 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 • Sport and recreation facilities • Resident and disabled parking permits	• 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 • Animal welfare and registration • Public parks, gardens, and playgrounds • Stormwater management • Active transport routes • Noise from residential buildings or residential construction sites • Maternal and Child Health services • Immunisation



Source: MAV

Based on the ABS classification of government functions, over the last 10 years the proportion of council expenditure being spent on public order and safety; environmental protection; recreation, culture and religion; and education has risen. The proportion spent on economic affairs and social protection has fallen, and the proportion on general public services; housing and community amenities; health; and transport has remained stable[29].

An alternative dataset from the Victorian Local Government Grants Commission over the last eight years reflects a similar picture, with increases to waste management and environment as a proportion of budgets, and decreases to family & community services and aged & disabled services[30].

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[29] MAV analysis of ABS Government Finances series
[30] MAV analysis of VLGGC Council revenue and expenditure data

Most Victorian councils participate in annual community satisfaction surveys undertaken by the Department of Government Services on their behalf[31]. This offers an important opportunity for councils to identify the activities their community most values and council's perceived performance in them.

Since the introduction of rate capping there has been an overall decline in community satisfaction. Community satisfaction is lower across rural and regional councils as a cohort than metropolitan ones, which mirrors financial capacity. The lowest satisfaction area state-wide is unsealed roads, an area influenced disproportionately by rural shires under the most financial strain.

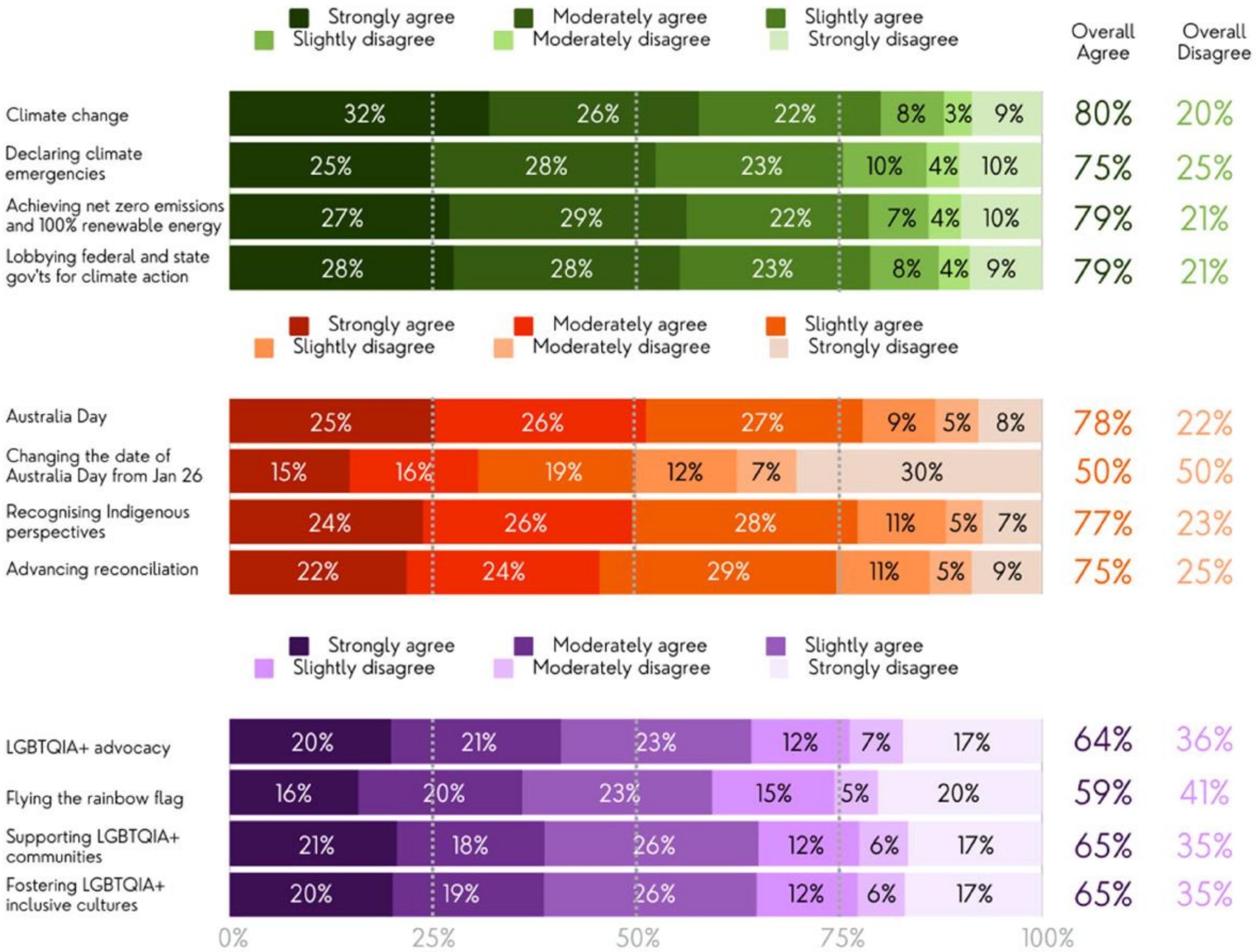
Identification of which level of government is responsible for specific areas is a further complication to the survey. Most Victorians would be unaware of which roads exactly were state owned and which owned by council. Similarly performance in land use planning may be impacted by the council's performance in strategic planning and setting local policy, or it may be influenced by state-driven policy around densification of housing.

The satisfaction survey lends strong support to the breadth of activities local government undertakes. Of all individual service areas considered in the 2024 survey, COVID-19 response was the only service area fewer than 80% of respondents rated as fairly important, very important, or extremely important.

Support for councils adopting a broad remit has also been found in other venues such as *From the Three Rs to the "Culture Wars"? How Australians Perceive Local Government Action on Climate Change, Indigenous Reconciliation, and LGBTQIA+ Advocacy*[32], *The Three Rs and Beyond: Public Perceptions on the Role of Australian Local Government Today*[33], and *The changing role of local government in Australia: national survey findings*[34].

31 https://www.localgovernment.vic.gov.au/our-programs/council-community-satisfaction-survey
32 https://journals.sagepub.com/doi/full/10.1177/10780874241242049?af=R&ai=1gvoi&mi=3ricys
33 https://www.tandfonline.com/doi/full/10.1080/08111146.2024.2320637
34 https://apo.org.au/node/321483

MUNICIPAL ASSOCIATION OF VICTORIA



Results to question *"In recent years, Australian local governments have often made news for the roles they played in some of the country's most contentious political issues. To what extent do you think local government should be engaging in these issues, in particular in relation to:"*, source: Chou et al., 2024

7 Local government leading the way

Councils are not merely sitting back calling for other levels of government to solve their problems. They are actively pursuing innovation and solutions. We have identified a small number of case studies that 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.

Four key areas for councils to lead in are:

- Shared services
- Digital transformation
- Continuous improvement
- Collaborative procurement

7.1.1 Case study: Yarra – 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.

7.1.2 Case study: Casey, Bass Coast & Cardinia – 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 subcontractors (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.

7.1.3 Case study: Benalla, Mansfield, Murrindindi & Strathbogie – 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 Strathbogie Shire Councils 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.

7.1.4 Case study: South Gippsland, Baw Baw, Bass Coast & Cardinia -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 councilor 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.

7.1.5 Case study: Corangamite, Moyne & Warrnambool – 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.

7.1.6 Case study: Casey & Cardinia – 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 primary 0-4 year olds,
- Secondary School Immunisation Sessions,
- Municipal Flu Vax Programs, and
- 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.

8 The Victorian State Local Government Agreement

In 2014 the Victorian Government and the Municipal Association of Victoria (on behalf of Victorian local governments) signed the Victorian State Local Government Agreement 2014 (VSLGA)[35]. This agreement replaced an earlier 2008 agreement in giving effect to the Inter-Governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (IGA).

The VSLGA is not a legally binding agreement but seeks to establish principles for the continuing relations between state and local government in Victoria.

The VSLGA applies to arrangements where the State:

- Intends for local government to administer or enforce new or revised primary legislation or regulation, or at as an agent and deliver services on its behalf
- Is, or intends to, partner with local government to deliver programs
- Is, or intends to fund local government to deliver a program
- May be affected by the relationship between the Commonwealth Government and local government.

It seeks to promote better social, economic, and environmental outcomes by encouraging improved coordination and strategic planning at the local level, strengthening council capacity, promoting transparency and accountability, and fostering a culture of continuous improvement.

In particular the VSLGA promotes improved consultation with local government and consideration of the potential impacts on local government when developing changes to legislation or regulation.

The MAV believes that practice has strayed from the principles of the VSLGA, and that awareness of the VSLGA across the breadth of State departments and agencies is low.

8.1.1 Case study: Changes to waste charge guidance

In December 2023 new Ministerial Guidelines were issued regarding the use of service rates and charges, specifically for waste and recycling services[36].

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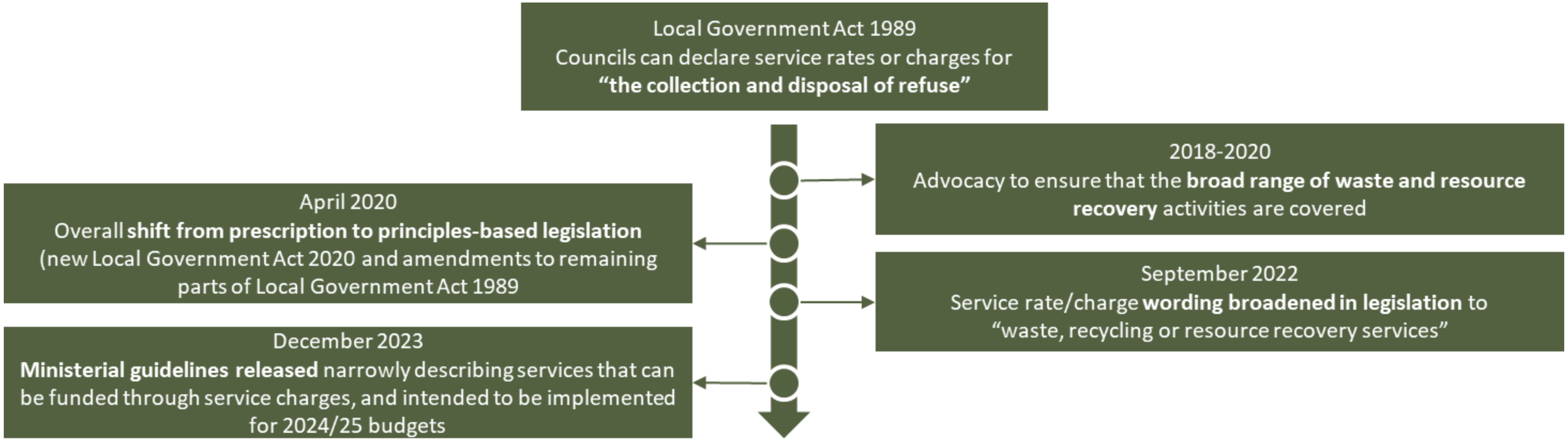
[35] https://www.localgovernment.vic.gov.au/our-partnerships/victorian-state-local-government-agreement
[36] https://www.localgovernment.vic.gov.au/__data/assets/pdf_file/0012/204222/Attachment-A-MinisterialGoodPracticeGuidelinesForServiceRatesAndCharges.pdf

The new guidelines state that a service charge for waste and recycling should only be levied to fund services directly benefiting a household. Some examples of activities which should not be funded were given, including: litter and waste collection from public spaces and the provision of public bins, street, footpath, and drain cleaning, and education and advocacy.

In a survey of councils, Local Government Finance Professionals (FinPro) found that only 20% of respondents believed their councils currently comply with the new guidelines. Across 39 responding councils the total estimated cost of services proposed to be moved out of the waste charge was $103.2 million with a median of $1.5 million per council[37].



Source: MAV

The guidelines represent a major departure from both the existing understanding of how waste charges are used, and the broader move to principles based approach rather than prescription that has been emphasised since the implementation of the Local Government Act 2020.

[37] https://www.finpro.org.au/wp-content/uploads/pdf/24.29.01-FinPro-Minister-Local-Government-Ministerial-Guidelines-LG-Rates-and-Service-Charges-Jan-2024.pdf

A 2022 legislative amendment expanded the scope of waste service charges from “the collection and disposal of refuse” to “waste, recycling or resource recovery services” following advocacy from the MAV and other groups to avoid potential confusion.

Consultation on the guideline was held confidentially with peak bodies not able to seek the input of members.

In addition to our issues with the content of the guidelines, the timelines for implementation are unrealistic. Guidelines were published on Friday 22 December, with the expectation that they would be implemented in 2024/25 budgets.

Setting of council budgets is a lengthy process involving early work from staff, councillor workshops, informal community consultation, as well as statutory consultation periods on a draft budget. For many councils this work is well advanced by the end of the preceding year. To be able to undertake as significant change as this would be extremely difficult.

There has been no suggestion that the services being delivered through service charges to this point have been illegitimate or poor uses of council resources. Communities expect councils to maintain clean public places, and the delivery of education is a vital part of improving waste avoidance and resource recovery. As such, councils would likely need to move the costs of these into the general rate. In a rate-capped environment this would require an application to the Essential Services Commission for a variation to the rate-cap.

We believe the ESC are not equipped to assess 80% of councils seeking a rate cap variation for 2024/25 when the earliest applications would come in is February following resolutions in the council chamber.

We believe that had the principles of the VSLGA been more closely adhered to many of these challenges could have been avoided through:

- A greater consideration of the potential impacts of the changes on local government services and finances
- More comprehensive consultation, including with officers responsible for delivering these services
- Consideration of reasonable timeframes for implementation if such a significant change were still being proposed

9 Cost shifting

Cost shifting takes on numerous forms. Some Victorian councils have recently sought to quantify the impacts of cost shifting on their budgets.

Mornington Peninsula Shire Council estimates operational costs of $38.1m attributable to cost shifting in 2023/24, with projections reaching a cumulative $234m over the subsequent five years. This is in addition to capital expenditure cost shifting of $38.4m over the same period[38].

In late 2022 Glen Eira City Council estimated cost shifts of $18.9m, or 10% of council's budget for that year[39].

Boroondara City Council undertook qualitative analysis on areas of cost shifting which included libraries, school crossing supervisors, maternal and child health services, urban stormwater, and electric line clearance[40].

Interstate, Queensland councils faced an estimated $360m impact from cost-shifting in 2020/21[41], while New South Wales councils saw a total impact of $1.36bn in 2021-22[42].

Below we have presented a selection of case studies of the cost shifts local governments in Victoria are currently facing.

9.1 Unfunded and underfunded responsibilities and requirements

9.1.1 Kerbside reform

Councils have long led the way in transitioning to a circular economy. In 2017 China implemented their National Sword policy, heavily restricting the import of mixed-waste streams into the country. Other nations soon followed suit, seeing the demand for Australian recovered resources evaporate. Stockpiles of recycled material grew, contributing to major fires at materials recovery facilities. Councils faced unprecedented price increases to maintain a recycling service. Ultimately SKM, which then had contracts for processing a large portion of Victoria's kerbside recycling stream collapsed.

Following this the Victorian Government began policy implementation to transition Victoria away from a linear economy, in which resources are processed, consumed, and discarded, to a circular one, in which resources are recovered and reused.

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[38] https://www.finpro.org.au/wp-content/uploads/pdf/MPSC-Cost-Shifting-Report-2024-for-Edition-4-2024-Member-Update.pdf
[39] https://www.gleneira.vic.gov.au/media/files/Agenda%2013122022.PDF p.291
[40] https://www.boroondara.vic.gov.au/media/77536/download
[41] https://www.lgaq.asn.au/costshifting
[42] https://lgnsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx

In 2020 the Recycling Victoria strategy[43] was announced. Victoria committed to the implementation of a Container Deposit Scheme (CDS), the last Australian state or territory to do so, four-stream municipal waste and recycling services (glass, food and garden organics, co-mingled recyclables and residual waste) and an overhaul of governance in the waste and resource recovery sector.

Victorian councils had been calling for a CDS for a long time, as well as other product stewardship measures at both state and national levels. Local Government and the resource recovery industry lobbied the Victorian Government to be leaders in the design of the CDS and include as broad a range of containers as possible. These calls were ignored and a conservative container list was adopted with the justification that a CDS was primarily a litter response and so containers typically consumed at home did not need to be included.

During the design phase of the CDS the South Australian EPA released a cost benefit analysis and found that expanding that state's longstanding CDS to include containers such as wine and spirit bottles was a preferable option to implementing a separated glass stream for municipal collections[44]. Furthermore, the Victorian Government's own Regulatory Impact Statement identified an expansive Container Deposit Scheme as having the highest net benefit and cost benefit ratio[45]. Despite this, Victoria ultimately opted for an unambitious CDS accompanied by a four-stream kerbside service. Glen Eira City Council estimated that in the first year of rollout, the implementation and operational costs of a separate glass stream would be $4.5m, noting that that was based on modelling undertaken in 2020 and costs were likely to have increased further[46].

Implementation of a kerbside bin dedicated to glass comes at large cost to local government and faces major operational challenges. Space for collection and storage of bins is limited in many areas. The economic and environmental benefits of the service compared to the cost of additional bins and truck routes have also not been demonstrated. Under the policy councils would be increasing the number of bins collected at each household, while the volume of material decreases as people return CDS-eligible containers themselves for a refund.

The Victorian Government has also frequently sought to impose unrealistic or unreasonable restrictions and expectations on councils throughout the implementation of the Recycling Victoria policy. Officers were asked to sign confidentiality agreements that prevented them from discussing matters with their elected councillors in order to access funding. The bargaining power of councils in negotiating contracts with the resource recovery industry was grossly overestimated.

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[43] https://www.vic.gov.au/building-victorias-circular-economy
[44] https://www.epa.sa.gov.au/files/15056_cds_econanalysis_review_report_dec2020.pdf
[45] https://engage.vic.gov.au/download/document/27083
[46] https://www.gleneira.vic.gov.au/media/files/Agenda%2013122022.PDF p.293

9.1.2 Building regulations

Councils have a vital role in the building regulatory system. Through their Municipal Building Surveyors councils monitor and enforce compliance with the Building Act and Building Regulations within their municipal district.

Since the early 1990s building permits in Victoria have operated under a privatised system, where developers are able to pick a building surveyor of their choosing to assess an application, issue a building permit, conduct inspections, and issue an occupancy permit. This creates an inherent conflict of interest where building surveyors who are seen as hard to deal with will struggle to receive ongoing work. The majority of building surveyors take their statutory role seriously, however they must compete against the minority who are willing to flout their responsibilities to keep clients happy, or cut corners on inspections unbeknownst to their clients.

The eventual and entirely predictable result of this deregulatory approach and a lack of adequate oversight from the Victorian Building Authority are the problems we see in today's built environment. Combustible cladding has been the most prominent example of this so far but is by no means where it ends. Compliance with swimming pool safety barrier requirements was identified as an urgent problem by numerous coronal investigations and ultimately resulted in a dedicated inspection regime being implemented.

Issues of waterproofing, structural integrity, substituted materials, and more are being uncovered as many buildings undergo their first independent inspection through the cladding rectification process.

With 90% of building permits issued by private building surveyors rather than councils, building departments within local government have shrunk. Victorian Local Government Grants Commission Data indicates cost recovery for the building control function across Victoria is now below 50% and came at a net cost to councils of $56m in 2022-23[47]. Building control revenue in this period consisted of 90% statutory fees and fines.

In addition to a funding shortfall and a structurally unsound regulatory system, we face a critical workforce shortage. We are now at the point where many experienced building surveyors are ready to retire with no one to mentor, let alone hand the reins over to.

[47] MAV analysis of VLGGC council expenditure and revenue data

The MAV believes that local government should have a role in building regulation. However, we need a system which matches responsibilities to resourcing.

9.2 Charges imposed on local government

9.2.1 Windfall gains tax

From 1 July 2023 a Windfall Gains Tax has applied to many re-zonings of land within Victoria. Re-zoning can create significant uplift in the value of land, and the WGT was adopted by the Victorian Government as a way of capturing some of this private gain to repurpose it to a public good.

Councils have long been encouraged to actively manage their asset base and look for inventory surplus to strategic needs and dispose of it. This can offer not only a one-off injection of funds to council, it can free up land for economic activity, or increasingly to help improve housing supply.

In doing so the land would often require to be re-zoned to fit its new proposed purpose. Councils are not exempt from the WGT and thus this would attract a liability of up to half the value of the increase in land value.

This provides a major disincentive to councils disposing of land. Even if re-zoned after a sale occurs, the impact of the WGT will be incorporated into the price a buyer is willing to pay so is ultimately paid for by council in foregone revenue from the sale.

The levying of the WGT on council land is inappropriate and counterproductive.

It is also concerning that the WGT is directed to the State Government's consolidated revenue. Any funds collected by the WGT should be reinvested within the area that it is generated - to be allocated towards infrastructure and service priorities determined in partnership with the local government.

9.2.2 Waste levy

The Victorian Government charges a levy per tonne on waste disposed of to landfill. This is intended both as a price signal to reduce waste production, as well as a source of revenue for several government agencies as well as climate change and waste and resource recovery policy initiatives.

In 2022-23 the waste levy generated $457m in revenue[48], and we estimate $157m of this came from councils through kerbside and municipal waste[49]. The Victorian Budget 2024-25 announced an intent to increase the levy by 35% in 2025-26. Even without accounting for population growth we estimate this would see councils paying a total of $212m in waste levy.

Councils are well aware of the need to reduce waste and the need for investment in resource recovery. However for municipal waste the waste levy does not act as a price signal. Decisions that create waste at the producer and consumer level are divorced from the costs borne for disposal to landfill.

Councils have also long been frustrated regarding the reinvestment priorities for this money. As well as funding core functions of government such as the Environment Protection Authority, money that is released through grants is often only loosely tied to the stated objectives of the Sustainability Fund. We want to see the money councils pay through the waste levy be much better prioritised to waste minimisation and resource recovery. As waste is minimised and more material is diverted from landfill, the amount being collected through the levy should fall. We have not seen this to be the case, and there is a risk of a perverse incentive while the government is able to underwrite core activities through the levy.

9.3 Erosion of funding arrangements

9.3.1 Maintenance of state assets

Over time, many councils have entered into Municipal Maintenance Agreements (MMA) with the Victorian Government which saw funding provided for undertaking maintenance on state-owned assets. A typical example would be an MMA with the Department of Transport and Planning to undertake street sweeping, and vegetation and litter management on and around a state road.

This has been cost effective for the State, and ensured the community enjoys a consistent level of amenity across both state and council owned assets.

Unfortunately many of these MMAs have not kept face with the costs of service delivery. With the broader financial pressures they are facing councils find it increasingly difficult to justify subsidising the maintenance of state assets through council budgets.

[48] https://www.deeca.vic.gov.au/__data/assets/pdf_file/0025/686014/2022-23-deeca-annual-report.pdf p.344
[49] MAV analysis of landfill tonnages from Sustainability Victoria Waste Data Portal

In April 2024 The City of Yarra resolved to cease open space maintenance, drain cleaning, and hazard response and reduce the frequency of street sweeping on state roads within the municipality. Yarra found that the cost of delivering service was exceeding the funding provided by the state 10:1[50].

We understand several other councils are considering similar action where costs and funding have diverged significantly.

9.3.2 Libraries

Previously councils and the Victorian Government bore the cost of funding public libraries evenly. Today councils fund over 80% of the operational costs of libraries. We estimate the size of this gap to be $83 million annually and growing.[51]

9.3.3 Maternal and Child Health

Victoria's Maternal and Child Health service is a critical part of the public health system. For Victorian families one of the most important people to them in the first years of a child's life will be their MCH nurse.

This service has been built on a strong partnership between State and local government, documented in a Memorandum of Understanding[52].

However, there has been a shift over the past few years resulting in an underfunding of this essential service. We need a clear commitment from the Victorian Government to restore 50:50 funding between state and local government.

The unit price, the basis for funding allocations, is severely out of date and has not kept pace with inflation.

In the current fiscal environment, where families have increased complexities due to the impacts of the COVID-19 pandemic, councils are unable to continue to subsidise the State Government contribution. There is a legitimate concern that in some municipalities the MCH service will be unable to continue providing for the needs of children and families. To stop this from occurring there needs to be an immediate uplift of the unit cost while the further work can be done to assess the true cost of service delivery and reestablish an equal cost-sharing arrangement.

9.3.4 Best Start Best Life reforms

The State Government's Best Start Best Life agenda is a revolutionary reform of the early education system.

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[50] https://www.yarracity.vic.gov.au/news/2024/04/10/council-ceases-maintenance-on-state-government-assets-in-a-better-deal-for-yarra-ratepayers
[51] MAV analysis of Public Libraries Victoria annual statistical survey results
[52] https://www.mav.asn.au/__data/assets/pdf_file/0007/29959/SIGNED-Memorandum-of-Understanding-DoH-and-MAV-2022-2025-24-Feb-22.pdf

MAV and the Department of Education and Training have a formal Partnership Agreement which has been in place for more than 10 years and use this as the basis in our collaborative work on the rollout of this ground-breaking reform agenda[53].

Whilst MAV welcomes and supports this reform, it is built upon a reliance of local governments infrastructure and an assumption that councils have the resourcing to maintain and continue to invest in the new infrastructure required for the implementation of the State Government's reform agenda.

An MAV infrastructure survey revealed that 188 new buildings will be required across the state for the implementation of 15 hours of 3-year-old Kindergarten by 2029. It also showed that 70% of early years infrastructure is more than 40 years old, adding to the burden of costs of councils.

We need the State Government to significantly increase its overall funding contribution to early years infrastructure planning and delivery. It must also adequately resource councils to undertake service and infrastructure-provision planning across the 10-year Best Start, Best Life reform.

The review of implementation timeframes for BSBL in the Victorian Budget 2024/25 was welcome. We need to ensure the additional time is not wasted by providing councils with the capacity to get infrastructure and a workforce online.

9.3.5 Cuts to grant programs

We call on the Victorian Government to reinstate cut or ceased grant programs such as the Growing Suburbs Fund, the Country Roads and Bridges Program, the Fixing Country Roads Program, the Better Planning Approvals Program, and the Women Building Surveyors Program.

Over the course of the last two budgets the Growing Suburbs Fund has been cut by 90%. This helped fund vital infrastructure in communities experiencing or projecting high population growth.

The Country Roads and Bridges Program and the Fixing Country Roads Program provided rural shires with additional resources to maintain their road networks.

The Better Planning Approvals Program saw a team of experts sit in with individual councils to identify and implement improvements to their planning approval processes. In addition to the benefit to those participating councils, the program resulted in several resources now publicly available.

[53] https://www.mav.asn.au/news-resources/publications/partnership-agreements

The Women Building Surveyors Program, announced in the 2020-21 Victorian Budget, provided funding to councils to support the employment and enrolment costs of a total of 40 women applicants to undertake a building surveyor qualification at a tertiary institution. The program was fully subscribed and the MAV and councils have requested additional similar programs. It represented progress in addressing not only gender equity within the construction industry, but the critical shortage of building surveyors facing the state.

9.4 Other cost shifting impacts

9.4.1 Rating exemptions

The Local Government Act offers statutory exemptions to council rates to a broad range of land uses such as electricity generation, mining, universities, private schools, and commercial holdings of religious institutions.

By comparison, the land offered exemption from the Fire Services Property Level is far more narrowly defined.

Depending on the measure used (Net Annual Value, Capital Improved Value, or Site Value), land which incurs the FSPL but is exempt from council rates amounts to between 3.1% and 3.5% of land value within Victoria[54]. The impacts of this are not uniform, with it reaching as much as 16% of the total land value in some municipalities. This distorts the distributive intent of rates and means a higher burden is placed on other ratepayers. In many cases these are highly lucrative uses of land.

In some cases such as electricity generation the land uses are subject to a payment-in-lieu-of-rates arrangement, however these generally contribute far less than they would if rated.

Sine exemptions are anachronistic, such as the application of rates to quarries but not mines. Given the social cost of gambling the exemption for poker machine venues run by service clubs on crown lands is hard to justify.

Other exemptions, such as those for private schools or universities, are now outdated. These institutions are large commercial operations competing at regional, national, and international scale.

[54] MAV analysis of Valuer-General Victoria outcomes report https://www.land.vic.gov.au/valuations/resources-and-reports/revaluation-2023-outcomes

We believe that religious and charitable land exemptions are too broad. They extend beyond just land used for charitable purposes, to any land held by a such an institution. Activities such as retirement villages being exempt also raises questions of market distortion against their private sector competitors.

9.4.2 Disaster recovery funding limitations

Councils in Australia are able to access federal funding to repair infrastructure damaged in emergencies such as flood and fire through the Disaster Recovery Funding Arrangements. Each State is responsible for implementing the DRFA and distributing money to councils.

In Victoria, DRFA funding is only available where councils are returning infrastructure to the condition it was in immediately prior to the emergency. This is entirely inappropriate, as the state it was previously in has just been proven incapable of withstanding a disaster.

Councils need to be able to build more resilient infrastructure so they are not repairing the same bridge to the same inadequate standard each time disaster strikes. Other states allow this through the DRFA and we need the Victorian Government to follow suit.

We also believe there is significant justification for a dedicated betterment fund to be established by the Victorian Government to supplement DRFA and potentially to aid councils in pursuing betterment pro-actively, rather than just in the wake of flood or fire damage.

9.4.3 Planning system inefficiencies

Councils frequently express their frustration with elements of the current planning system.

Strategic planning, through planning scheme amendments, is often prohibitively expensive to undertake. In addition to the direct cost to community, the process once an amendment has been supported by council can still take multiple years. The economic, social, and reputational cost to the delay in acting on identified local priorities is large.

The planning panel process has become overly legalistic, and the burden to participate it places on both councils and other stakeholders does not match the value added.

By contrast the Minister for Planning regularly prepares amendments exempting themselves from panel processes or any public consultation. Council officers often find the first they will know of material changes to their planning scheme will be when they are gazetted and effectively law. No provision is made for training officers or familiarising the community with changes, this is merely a cost expected to be absorbed by councils.

Similarly to planning panels, the cost and delays associated with permit applications going to VCAT are major roadblocks to timely planning decisions. VCAT should be resourced to appropriately deal with the matters it needs to. Other process issues should also be addressed at the same time, including developers not materially engaging with council and treating VCAT as a primary assessment rather than an appeal avenue, and the ability for applicants to materially change proposals prior to appearing at VCAT with limited opportunity for councils and feedback to form a considered view.

Following recommendations from the Royal Commission into the Black Saturday bushfires, the Victorian Government enacted a program of regular state-led review and implementation of bushfire hazard mapping in the planning system. Rather than councils being responsible for applying the Bushfire Management Overlay within their municipality, a state team would conduct a rolling review statewide. This has improved consistency, addressed resource disparities between councils, and concentrated expertise in the one place.

We have long called for a similar approach to be taken with regards to flood mapping. The State should be responsible for preparing and implementing changes to the various flood-based overlays within planning schemes. Similar to the Bushfire Management Overlay approach, the state could draw on the knowledge of councils, catchment management authorities, and landowners regarding potential changes to conditions however the decision would ultimately be centralised.

In response to lobbying from the development industry the Victorian Government has introduced growing carve-outs of the regular planning system. The most prominent of these is the Development Facilitation Program. Under the DFP applicants for certain classes of development can apply to have the Minister for Planning, rather than the relevant council assess an application. In assessing the application the Minister and the Department draw heavily on the knowledge and expertise of planning teams within the relevant council. However there is no funding arrangement in place to reflect the cost of this. This represents an additional burden on already stretched council planning teams.

9.4.4 Cost perceptions

A significant portion of the amount collected through a rates notice goes directly or indirectly to the Victorian Government.

In 2022-23 councils collected a total of $7bn in rates and charges. For the same period, the Victorian Government raised $790m through the Fire Services Property Levy which is largely collected through council rates notices.

We estimate a further $157m was collected from councils through the waste levy based on data through the Recycling Victoria Waste Data Portal.

We estimate that approximately 12% of the money collected through an average rates notice flowed to the Victorian Government through these two sources. Despite this, most community members would associate the entirety of the cost imposed through a rates notice with local government.

MAV would be pleased to provide clarification on any information in this submission.
For further information, please contact Emlyn Breese, Coordinator Research & Policy at ebreese@mav.asn.au.

Municipal Association of Victoria
Level 5, 1 Nicholson Street, East Melbourne VIC 3002
PO Box 24131, 15 Southern Cross Lane, Melbourne VIC 3000
Telephone: 03 9667 5555 Email: inquiries@mav.asn.au
www.mav.asn.au