

**Submission
No 65**

INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

Name: Hepburn Shire Council

Date Received: 28 June 2024

28 June, 2024

Georgie Purcell MP
Chair - Legislative Council Economy and Infrastructure Committee
Inquiry into Local Government funding and services
Parliament House
Spring Street
EAST MELBOURNE, VIC 3002
Email: eic.council@parliament.vic.gov.au

Dear Ms Purcell,

Re: Inquiry into Local Government Funding and Services

We are writing on behalf of Hepburn Shire Council to provide insights to the *Inquiry into Local Government funding and services*, outlining current challenges of financial sustainability and service delivery. Situated in a rural landscape, Hepburn Shire spans 1,473 square kilometres, encompassing towns like Clunes, Creswick, Daylesford, Hepburn Springs, Trentham, and various smaller settlements, each with distinct identities. Currently home to 16,157 residents, with projections indicating a rise to 17,700 by 2036. The Shire boasts a rich cultural history, beginning with the Dja Dja Wurrung People the Traditional Owners.

Financial pressures are mounting across all levels of government, businesses, and communities, particularly within Victoria's local government sector. These challenges will demand adjustments to council service offerings and infrastructure investment capacities. Factors such as rate-capping below CPI, a relatively small population base, numerous dispersed settlements, and a modest rating base collectively constrain financial prospects of our shire.

It's important to note that councils often allocate much of their funds for specific purposes like infrastructure projects, rather than holding ample unrestricted cash reserves. Rising costs, construction materials, and services, alongside ongoing capital works programs, add further strain. Escalating expenses such as employee costs, insurance, regulatory compliance, and external factors like natural disasters, legislative changes, and events such as COVID-19 also contribute to financial complexities for Hepburn Shire and the sector.

In this submission we provide comprehensive responses to the following focal points of the inquiry:

1. Cost shifting from state and federal governments to local Councils.
2. Local Government's ability to meet core service delivery.
3. Revenue Structure of Local Government.
4. Alternate Models of Funding
5. Other related matters

1. Cost shifting from state and federal governments to local Councils.

Legislative changes and the shifting of costs from state and federal governments to local councils complicate local administration and exacerbate fiscal imbalances. Increasing responsibilities without corresponding financial support force local governments to reassess their service delivery capabilities. Community expectations of Councils have changed and increased. Communities expect that Councils must address critical areas like social and affordable housing, climate change mitigation, noxious weed management, emission reduction targets, and pool fencing compliance. However, as demands rise and investments remain stagnant, asset deterioration becomes inevitable. Models indicate an annual asset renewal gap across Council cohorts, which is expected to widen as funding fails to keep pace with rising costs.

Key areas where cost-shifting has significantly impacted Hepburn Shire and other rural communities include insufficient funding for community programs such as maternal and child health services, libraries, and emergency management. The escalating costs of waste management and the effects of climate change also heavily burden rural councils. Additionally, new legislated positions or service changes mandated by government reforms, without corresponding funding for administration and review, often deplete the already limited operational budgets of rural councils.

Recommendation: That State Government consult with the sector prior to reform development or review of existing reforms so that the full impact to Council funding and community services is considered.

Community Infrastructure Needs

Meeting the growing community infrastructure needs is becoming increasingly challenging due to critical limitations in asset renewal. Several key factors contribute to this issue:

1. **Extensive Capital Works Programs:** Local councils often undertake large-scale capital works projects, which require significant investment. However, the financial resources allocated for these projects are often insufficient to meet the actual costs, leading to delays and compromises in infrastructure quality.
2. **Inadequate Grant Indexation:** The lack of adequate indexation for grants exacerbates financial constraints. As costs rise over time, the value of grants does not keep pace, resulting in a funding shortfall that hampers the completion and maintenance of infrastructure projects.
3. **Financial Constraints:** Local governments operate within tight budgetary constraints, limiting their ability to fund essential infrastructure projects. This financial pressure is further intensified by rate caps, which restrict the amount of revenue councils can generate through local taxes.
4. **Discrepancies Between Planning and Grant Reliance:** There is often a mismatch between the strategic planning for community infrastructure and the reliance on external grants. This dependency on uncertain grant funding leads to inconsistencies and delays in project implementation, making it difficult to meet community needs effectively.
5. **Population Growth Outpacing Infrastructure Delivery:** Rapid population growth in many areas outpaces the delivery of necessary infrastructure. This creates a gap between the demand for

services and the available infrastructure, putting additional strain on existing assets and necessitating urgent upgrades and expansions.

6. Delays in Funding Decisions: Prolonged delays in funding decisions lead to cost escalations. As projects are postponed, inflation and other economic factors drive up expenses, making it even more challenging to complete infrastructure projects within the original budget.

As a result of these combined factors, local governments face significant financial challenges. The inability to adequately fund and maintain essential infrastructure risks service reductions and the deterioration of critical assets. This jeopardises the liveability and prosperity of smaller and regional communities, potentially leading to decreased quality of life and hindering economic development. Addressing these issues requires a comprehensive approach, including better financial support, timely funding decisions, and strategic planning that aligns with community growth and needs.

Recommendation: Hepburn Shire proposes exploring alternative approaches to establish reliable, long-term funding mechanisms for infrastructure renewal and upgrades. Shifting away from reliance on sporadic grants to more consistent and predictable funding allocations would ensure stability and effectively address the pressing needs of our communities in a sustainable manner.

State-Imposed Rate Capping

Hepburn Shire Council continues to operate as a low-rating council. Before the implementation of the Fair Go Rates system, the council had already voluntarily imposed multiple years of low rate rises to maintain its services and operational efficiencies, mindful that its residents, who are of an older age than the State average, are often asset rich and cash poor. However, the state-imposed, one-size-fits-all rate cap has financially penalised Hepburn by applying it to an already low revenue base. As a result, Hepburn ranks 61st out of 79 Victorian councils in terms of the average rates per property assessment.

While all levels of government must manage public funds responsibly and provide cost-effective services, municipalities should have the freedom to set service levels and funding options in collaboration with their communities. The existing one-size-fits-all rate capping policy significantly hinders the sector. Although the importance of rate capping is recognised, rural and regional councils like Hepburn are at a considerable disadvantage. To bridge the gap between councils' income and expenditure, either increased grant funding or greater flexibility in the application of rate caps is crucial.

Our view is that there is a need to introduce a Local government Cost Index for the setting of the Victorian rate cap, that reflects the actual cost factors most relevant to local government – this should consider as a minimum the Cost Price Index (CPI), Wages Price Index (WPI) and Road and Bridge Construction Index.

Without this flexibility, Hepburn Shire Council has faced the difficult decision to reduce services beginning 1 July, 2024. Council's adopted 2024/25 budget includes a reduction of \$1.5M in operational expenses (4.5% of total operational expenses). To further tackle financial constraints, Council is also considering asset disposal as a means to reduce costs and generate short-term

revenue. Additional measures are under review to ensure long-term financial stability. It is essential for the Victorian Government to provide funding support, particularly where increased levies and additional costs have resulted from state regulations. Such support is necessary for local councils like Hepburn Shire to maintain service levels and address the financial challenges imposed by these regulations.

Recommendation: That the Committee recommend to the Victorian Government that it undertakes a full and independent review to reform the rate capping system to ensure it reflects the cost pressures facing local government, different cost structures of the various Council cohorts and communities capacity to pay, including the development of a Local Government Cost Index.

Waste Management

In line with our Sustainable Hepburn Strategy, the Hepburn Shire Council initiated a weekly kerbside collection of food and organics (FOGO) for township residents starting in April 2024. The recent implementation of the Good Practice Guidelines for waste and recycling charges is expected to adversely impact our community relations as we communicate and prepare for changes in rates and charges, navigating complex discussions concerning our long-term financial strategy. However, councils face challenges in securing adequate funding to support these legislative reforms. While councils manage day-to-day operations effectively, they encounter difficulties in promoting and educating the community about these reforms due to limited financial resources.

Recommendation: There is an opportunity for the sector to work with the Essential Services Commission (ESC) with support from the Minister to create a simplified, one-off rate cap variation to allow Councils to shift this revenue. This simplified process would have the principle that there is no net increase to revenue for Councils, and also potentially assist the ESC deal with a large number of complex rate variation requests.

2. Ability to meet core service delivery.

State funding often falls short of covering the actual costs of delivering services such as school crossings, kindergarten programs, libraries, and immunisations. While the increased funding for the Maternal Child Health service is welcomed, it merely ensures break-even without allowing for expanded service hours within the Hepburn community. Rising service delivery costs and higher community expectations put significant pressure on our small rural council, making it difficult to match the service levels of neighbouring councils. This disparity creates significant inequity for our community, who expect the same level of service for their rates. Attracting and retaining residents is challenging if our service delivery falls short compared to larger neighbouring councils.

Infrastructure maintenance costs have risen 10-30% over the past three years without corresponding income increases, forcing the Council to cover shortfalls. This will ultimately necessitate service changes and cuts. Efforts to find new revenue sources have been unsuccessful due to limited options, such as parking fees and enforcement.

Hepburn Shire faces a financially challenging landscape due to rising service costs, rate capping, stagnant grant income, natural disasters, pandemic management, and increasing community expectations. For 2024/25, this means reducing services and potentially selling assets to maintain basic service delivery. The Hepburn Shire 2024/25 budget projects \$6.95 million in cash reserves by June 30, 2025, with unrestricted cash forecasted at only \$0.29 million. This extremely modest buffer requires the Council to thoroughly consider the most effective means to ensure financial stability and sustainability. The absence of a cash buffer poses undue risk on the organisation as it faces more frequent and severe emergencies and dilutes the confidence in which it can commit to the community on the security of budgeted projects and initiatives.

Council is currently exploring options for shared services with neighbouring local governments, but there are limitations to the services that can be provided under partnering models. Despite efforts to ensure financial sustainability, funding disparities and rising costs challenge Hepburn Shire's ability to deliver core services effectively. The Financial Vision, to be presented to Council in September 2024, will guide service cuts and explore revenue sources such as borrowing, rate increases, and fees. Community input in July 2024 will shape service priorities.

Unless governments urgently address critical issues affecting councils—such as cost shifting, rate capping, growing inflation, and grant and funding shortfalls—councils will continue to struggle with determining which services they can sustain in the long term.

Recommendation: Undertake an independent review to implement a fairer cost sharing arrangement between Local and State Governments.

3. Revenue Structure of Local Government.

Current funding mechanisms, particularly the reduction in Federal Financial Assistance Grants, present significant challenges for local government. In the fiscal year 2023–2024, Financial Assistance Grants to local governments are now about 0.5% of commonwealth tax revenue, marking a sharp decline from 1% in 1996. These grants no longer adequately cover the costs of service delivery, necessitating a review of indexation methods. Indexation must align more closely with the actual costs of providing local government services, considering the limited revenue-raising capacity compared to state and federal governments. Addressing the current gap resulting from past freezes and low indexation rates is crucial.

Local councils bear primary responsibility for providing essential local services such as planning, libraries, and waste management, as well as critical infrastructure like roads, footpaths, parks, sporting grounds, and swimming pools tailored to community needs. The reduction in funding has profound consequences for these services.

In Hepburn Shire, we are facing a steep decline in our underlying financial position, with a projected negative unrestricted cash position at June 30, 2024. To address this, we must either increase revenue or reduce expenditure in the coming years. Our adopted budget for 2024/25 outlines operational reductions totalling \$1.5 million, and the need to generate an additional \$4 million through increased revenue or reduced spending in 2025/26 and subsequent years. This trend is consistent among small councils, as indicated by the adjusted underlying result ratio.

An immediate review of grant funding programs is imperative for regional and rural councils. Additional funding streams are necessary to support the maintenance and replacement of infrastructure, particularly to accommodate population growth and environmental considerations. There are opportunities to improve the administration of grant programs, particularly in partnership with local government. This includes reducing administrative burdens, easing co-contribution requirements, allowing for more flexible timelines, and increasing grants for planning and feasibility studies, especially in regional and rural areas. Hepburn Shire Council urges a fair allocation of funding to better support the delivery of essential services and infrastructure projects aligned with state priorities.

Recommendation: Advocate to the Australian Federal Government for the restoration of financial assistance grants to local government to one percent of tax revenue, with no reduction in other funding pools currently provided to Local Government.

4. Alternate Models of Funding

The 2022 international report by Rural Councils Victoria (RCV), titled "Alternative Sources of Income for Local Government," underscores the challenges faced by small councils in generating additional income. The report reveals that despite extensive searches across Australia and overseas, no single idea or combination of ideas emerged as a substantial alternative revenue source for small councils, particularly those representing small communities. Existing alternative sources only marginally cover the funding requirements necessary for Hepburn Shire's long-term financial sustainability.

Recommendation: Ensure adequate funding allocation to councils to sustain the delivery of essential services amidst rising levies and additional costs imposed by state or federal regulations.

5. Other related matters

Workforce Attraction and Retention

Hepburn Shire, located between Bendigo and Ballarat, faces competition for skilled workers due to superior pay, career prospects, and housing availability in these larger centres. This dynamic poses a significant recruitment challenge for small regional councils, as skilled professionals are drawn to opportunities in the private sector and larger municipalities. High turnover rates are particularly pronounced in roles such as Environmental Health, Town Planning, Building Surveying, Asset Engineering, Community Safety, Local Laws, and Senior Finance positions, further complicating the situation.

The State Government's previous program, Women Building Surveyors Program, was a highly effective program to assist workforce shortage for Local Government but also created a pathway for females to enter a predominately male dominated workforce (building surveyors).

It is also difficult for small rural Councils in particular to offer a graduate program – there maybe an opportunity for the current Victorian Government Graduate Program to be extended to include Local Governments.

Recommendation: That the State Government co-design with the sector a number of initiatives to assist in the attraction and retention of workforce into Local Government, including but not limited to:

- a) A statewide campaign detailing the career opportunities within local governments;*
- b) Creation of similar programs to the Women Building Surveyors Program; and*
- c) Consider allowing Local Government to participate in the Victorian Government Graduate Program.*

Climate Change, Emergency Management and Recovery from Natural Disasters

Hepburn Shire has experienced three severe natural disasters since 2021, significantly impacting community infrastructure. The tightening of Disaster Recovery Funding Arrangements has placed increasing financial burdens on the local government for repairing public infrastructure, resulting in a \$4.4 million shortfall. This necessitates the deferral or cancellation of other projects. Given the high risks of future fires and floods, Council is prioritising mitigation infrastructure and undertaking long-term financial planning to better prepare for potential disasters. The current Disaster Recovery Funding Arrangements are cumbersome, and do not treat Local Government as a partner – and are causing significant delays in repair work being undertaken.

Recommendation: That the Committee support an urgent, independent review of the Disaster Recovery Funding Arrangements to be undertaken, and finalised.

Existing revenue structures for local governments face sustainability challenges due to constraints like rate capping, cost shifting, funding gaps, and rising operational costs.

There is an urgent need for a comprehensive evaluation of revenue models and financial support mechanisms to secure the long-term viability of local government services.

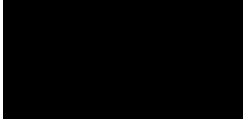
Hepburn Shire Council remains dedicated to delivering for the community by completing ongoing capital projects, investing in asset renewal and community infrastructure, and ensuring effective and efficient service delivery aligned with community priorities.

We appreciate the opportunity to contribute to the Legislative Council Economy and Infrastructure Committee's inquiry. Hepburn Shire Council looks forward to collaborating with the Victorian Government to explore strategies that alleviate financial pressures, thereby safeguarding the long-term sustainability and welfare of our communities.

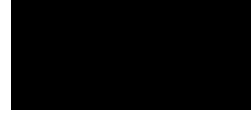
We appreciate the opportunity to provide a submission to the inquiry and would be most willing to host members of the Committee should you wish to undertake further inquiries in the region.

[Redacted signature block]

Yours sincerely,



Cr Brian Hood
Mayor



Bradley Thomas
Chief Executive Officer

